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Is the Housing Market Beginning to Soften?

A decade ago the housing market crashed. Over the past couple of years, a seller's market meant home prices soared, bidding wars were the norm, and inventory shortages led to frustration for eager buyers. But market experts are starting to speculate that home price increases will slow down and the housing marketing is beginning to soften.

"The signs are pointing to a market that's shifting toward buyers. But in most places, we're still a long way from a full reversal," said Danielle Hale, chief economist of realtor.com®.

Although some markets are beginning to soften, prices are not going down on a national level. Median home prices are up 7 percent over the past year. However, these numbers

are a drop-off from the past two years.

For example, last year home prices went up 10 percent from the year before. Some speculate this indicates the market is coming down. And realtor.com® data reveals some of the high-profile housing markets across the country are starting to slow down.

Sellers may soon need to settle for less than they would like. The number of homes on the market is beginning to rise in popular areas such as New York City, Dallas, San Francisco, Boston, and Los Angeles. Buyers

will face less competition, which controls price inflation.

"We've hit that tipping point in a lot of these cities where what sellers think they can get is just not possible for many buyers. Now the pendulum is swinging away from sellers and back toward buyers," said Daren Blomquist, senior vice president at real es-





tate information provider ATTOM Data Solutions.

Housing experts are divided on how much prices will go up or if they may go flat. Rising mortgage interest rates play a role in why the housing market is starting to turn. The more costly it is to get a loan, the less money buyers have to spend on a house. And a small increase can be enough to take some buyers out of the game.

Additionally, President Donald Trump's tax plan may limit how high housing prices can go, especially in the most expensive areas of the nation. Buyers can only deduct the mortgage interest they pay on loans up to \$750,000. In the past, the cap was up to \$1 million. Plus, taxes continue to increase in costly areas such as New York, New Jersey, and California.

As a result, homeowners are rushing to put their homes on the market before prices go down. The increased inventory is a significant advantage for home buyers.

The situation is particularly notable in California, where housing prices are notoriously high. In Seattle, median prices are not going down. But in Austin, TX, and Nashville, TN, prices are going down. Once boom towns, sellers in these cities are reducing the asking prices for their properties.

While some softening has occurred, there is no prediction of a bubble that will pop. "It's hard to see this as the bubble popping in any way close to what we saw ten years ago. I see it more as a deflating, letting some air out of the balloon...[so there isn't] a bigger pop down the road," Blomquist added.

Foreclosed Homes Appreciate Faster Than the Average U.S. Home



Homes that were foreclosed during the recession are rising in value at a significantly faster pace than the typical U.S. home.

Over the past year, the median crisis-era foreclosed house went up 10.3 percent in value. The median home value went up only 6.5 percent, according to a recent analysis from Zillow.

Meanwhile, foreclosed homes are appreciating at an accelerated rate as the overall market slows down. Now foreclosed homes are worth more than ever before in many markets. Since the recession, these houses have increased in value by 74.5 percent. The typical U.S. home only went up 46 percent in value.

However, foreclosed homes dropped the most during the recession. And they have a lower value than typical homes across the country. Typical home values are \$216,700 while foreclosed homes are \$207,000.

"When the housing market tripped up a decade ago, homes that went into foreclosure fell hard," said Zillow senior economist, Aaron Terrazas.

He stated their value dropped quite a bit more than homes that did not experience foreclosure.

"But markets will never overlook a deal, and for much of the economic recovery, homes with a history of foreclosure have been a deal," Terrazas added.

He indicated this remains the same today, though somewhat less than a year ago.

Senator Warren Unveils Legislation to Address Housing Affordability Crisis



Affordability continues to be a significant concern for renters and buyers across the country. Organizations and government officials are striving to find solutions. Recently Sen Elizabeth Warren, D-Mass., introduced a proposal that could ease the continued affordable housing crisis in the U.S.



At the end of September, Warren introduced the American Housing and Economic Mobility Act. It aims to provide \$470 billion for affordable housing trust funds; it also increases the number of financial institutions subject to the requirements of the Community Reinvestment Act.

For most working families, housing is the most significant expense. She said, “My bill would cut rents by 10 percent and give families in urban, rural, and suburban communities more economic security.”

“This proposal will attack the rising cost of housing by helping to roll back needlessly restrictive zoning rules and taking down other barriers that keep American families from living in neighborhoods with good jobs and good schools,” said Warren.

If passed, the Act will increase federal funding for building or rehabilitation, put money into grant programs communities can use to build infrastructures, provide down payment grants for first-time home buyers, and other initiatives to put renting or owning a home within reach.

10 Hottest Housing Markets in the U.S.



The most popular neighborhoods for buyers are in the suburbs. Emerging areas are the result of millennial home buyers with a generous budget, according to the recent *USA Today* Realtor.com’s annual list of the hottest ZIP codes in the U.S. These

buyers have found improved value in areas from Peabody, Massachusetts to Watauga, Texas.

The surrounding areas for eight of the top ten ZIP codes have median prices that are less than those in surrounding metro and county areas.

“This really meshes with what we’ve seen, which is people leav-

ing high-cost areas such as the Bay Area in California and looking for more affordable real estate in Idaho, Arizona and even Texas,” said Realtor.com chief economist, Danielle Hale.

The hottest housing areas this year include:

- * Kentwood, Michigan 49508;
- * Colorado Springs, Colorado 80922;
- * Watauga, Texas 76148;
- * Castro Valley, California 94546;
- * Peabody, Massachusetts 01960;
- * Boise, Idaho 83704;
- * Worthington, Ohio 73086;
- * Overland Park, Kansas 66210;
- * Rochester, New York 14624; and
- * Upper Montclair, New Jersey 07043.

Home buyers in hot markets should know their price range and stick to it, stay on top of market updates with the help of a local real estate agent, be ready to act fast with a pre-approval from a mortgage lender, and make the highest down payment possible to be competitive.

How Millennials Are Changing the U.S. Housing Market



Data from the Census Bureau American Community Survey’s five-year population estimates shows that millennials are settling in ZIP codes in or near downtowns. In many of those ZIP codes, they make up the majority of the population and they are willing to pay high rents to live there.



For example, the millennial population in Lower Manhattan ZIP code 10282, which includes Battery Park, grew by 55 percent over the five-year span. With an average rent of \$5,657 a month, it's the most expensive ZIP code in the U.S., according to RentCafé.

In downtown Los Angeles, the ZIP codes 90014 and 90013 (which includes Skid Row) are being gentrified with a high-rise building boom. Over a five-year period the millennial population increased by 91 percent in ZIP code 90014 and by 60 percent in ZIP code 90013.

In a list of 20 ZIP codes where millennials make up the majority of the population, all but two are either downtown or near downtown.

The ZIP code with the highest percentage of millennials is Chicago's West Loop in ZIP code 60661, where 73 percent of the residents are millennials. The area has undergone an apartment building boom and is adjacent to the central business district, "the Loop."

In second place is ZIP code 19127, the Manayunk neighborhood in Philadelphia where 71 percent of the residents are millennials. While not downtown, the neighborhood is known for its small businesses, wide range of leisure activities, and restaurants.

In third place is ZIP code 10005, the Financial District where Wall St is located in Lower Manhattan, where millennials make up 71 percent of the population.

U.S. Housing Faces '5 Percent' Test



For the first time in years, the 30-year mortgage rates have climbed close to the 5 percent threshold. The U.S. housing market is already struggling with soaring building costs and a tight inventory of available properties.

The price of homes has increased mostly due to a shortage of available homes for sale. However, low borrowing costs kept housing affordable. Rising mortgage rates are changing this situation.

In January, mortgage rates were 4.23 percent and now they are

4.97 percent, per the Mortgage Bankers Association. As a result, a potential home buyer would pay approximately \$35,000 more interest on the average home loan of \$220,000.

The Federal Reserve increased its benchmark lending rate from close to zero three years ago to 2.00 percent to 2.25 percent after a central policy meeting a week ago. The central bank has also reduced its holdings of mortgage bonds.

Economists believe home loan costs would need to be much higher to result in a housing activity slump. It is not being viewed as a significant obstacle by many economists.

"We need to see rates rise another 100 basis points to see a substantial drag," said Aaron Terrazas, senior economist at Zillow.

A resulting trend is that buyers are being more aggressive about negotiating the price of homes, pushing buyers to lower the asking price on their properties.

August Housing Starts Rise 9.2 Percent



In August, home building in the U.S. increased more than anticipated. It was seen as a positive sign for the housing market, which had underperformed the overall economy as home interest rates rose.

According to the Commerce Department, housing starts increased 9.2 percent to a seasonally adjusted rate of 1.282 million units. A month earlier in July, the Commerce Department raised its estimate for starts to a 1.1174 million-unit rate.

Housing starts data can be volatile and subject to significant revisions. In August, much of the gain was due to the volatile multi-family component. Starts on buildings with two or more units rose 29.3 percent to an annual rate of 406,000 units.

During the same time period, single-family home building, the largest share of the housing market, increased by just 1.9 percent to



a rate of 876,000 units.

However, building permits plummeted 5.7 percent to a rate of 1.229 million units. The activity during August was flat in the Northeast. In the South, West, and Midwest, groundbreaking activity increased.

Economists continue to blame rising mortgage rates and low inventories as the reasons for the U.S. housing market under-performance during a robust economy. For some first-time home buyers, the higher house prices put owning a home out of their reach.

U.S. to Add More Cities with \$1 Million Median Home Values



In some neighborhoods, million-dollar homes are becoming the norm rather than the exception. Home prices across the U.S. are rising at the quickest rate in years, creating “\$1 million cities” in the process. Over the next year, 23 more cities across the country are anticipated to have median home values over \$1 million, per an analysis from Zillow.

At this time, the U.S. has 197 cities where the median home values are \$1 million or more, 33 of which achieved this status in the last year.

Senior economist at Zillow, Aaron Terrazas, stated in the report, “The number of million-dollar cities has doubled over the past five years.”

Terrazas continued, “Although home-value growth is expected to slow over the next year, particularly at the high-end of the housing market, the number of cities where more than half of homes are valued in the seven digits is expected to jump to a new all-time high over the next 12 months.”

Most of these high-priced markets are located in affluent sub-

urbs of major finance or tech hubs, Terrazas said. Seven of the cities expected to cross this threshold in the next year are suburbs of San Francisco, while five are located in the Los Angeles metropolitan area. Other metro areas expected to add multiple \$1 million cities include New York, Boston, Seattle, and San Jose, Calif.

However, two cities where the median home value is expected to exceed \$1 million are unique. If Zillow’s projections are correct, Biltmore Forest will be the first city in North Carolina and Anna Maria, a small city on a barrier island on Florida’s Gulf Coast, will be the first city in the Sarasota metro area where the median home value is \$1 million or more.

Mortgage Applications Stay Flat Along with Interest Rates



According to the Mortgage Bankers Association’s seasonally adjusted index, last week’s mortgage application volume remained unchanged from the previous week. But the mortgage application volume was down 15 percent from last year.

Applications to refinance a home loan, which are quite rate-sensitive, barely moved this week, falling only 0.1 percent. Refinance volume has been weak throughout the year and was 33 percent lower than the same week last year.

“Rates were little changed last week, following the most recent ROMC meeting where the Fed announced another rate hike based on the health of the economy and job market as expected,” noted Joel Kan, an MBA economist.

“Short-term rates have been increasing, but long-term rates have held steady, which should not pose too much of a headwind to home purchase activity, especially given the potential demand from demo-



graphic factors,” Kan added.

Buyers continue to face high prices and minimal listings. More sales are happening on the expensive side of the housing market simply because there is more inventory in that price range. Sales of lower priced homes are down this year but the National Association of Realtors said it is due to lack of supply rather than lack of demand.

How to Represent Buyers in a Seller's Market



Agents often find it challenging to represent buyers in a seller's market. There is little inventory, housing prices soar, and the competition to buy quality homes can lead to bidding wars. Consider these eight factors when you represent buyers in this type of market.

1 Consider Comparable Sales

The best way to help a buyer get a fair deal is to know the comparable sales in the past 90 days for the community the buyer is looking at. The agent can let the buyer know how quickly homes are selling, how close to asking price, and the terms sellers have been accepting.

2 Work With Qualified Buyers

Qualified buyers are in the best position to make a meaningful offer on a property. Verify the potential buyers are qualified. Determine if they have the cash to buy a home or if they are pre-approved for a mortgage and the proposed sales price. Discuss closing costs, so buyers are prepared to cover them, too.

3 Proof of Funds

It takes more than the buyer's word to determine they are

qualified to purchase a home. When an offer is submitted, let the buyer know they must show proof of funds for a cash purchase. For a mortgaged purchase, the pre-approval letter must be presented to the sellers.

4 Overpriced Housing

Knowing the comparable sales in an area makes it easier for an agent to determine if a house is overpriced or priced near market value. If the buyer finds a property that is priced fairly, an offer should be placed in writing immediately as there will be other buyers interested in the house.

5 Closing Dates

Talk to buyers about when they want to close on a home. Also, find out when the seller wants to sell the property. If a seller wants a fast closing, and your buyer can make that happen, it could make the offer the sweetest in the bunch.

6 Patience Is a Virtue

Sometimes a seller needs a couple of days to consider the buyer's offer. One day might not be enough, but a week is too long. Give them time but not too much time. The goal is to get the seller to accept your buyer's offer. An agent must carefully weigh the time frame to avoid being pushy or missing out on the deal.

7 Present a Clean Offer

Every offer an agent presents in a seller's market should be a clean offer. Everything should be signed and initialed. Proof of funds or a pre-approval letter should accompany the offer.

8 Add a Personal Touch

If the buyers really want the property, ask them to write a letter to the seller to accompany the offer. The buyers should include something about who they are, why they love the house and provide a bio that could sway the sellers to choose their offer.

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