

Real Estate Digest



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How Will Luxury Real Estate Perform in 2019?

As real estate markets across the country continue to soften, analysts are looking ahead to try to determine how the luxury market will pan out for the remainder of 2019. This is important because whatever occurs at the very top of the real estate market eventually impacts everyone and can provide early warning signs of a coming downturn.

According to a list of luxury real estate sales compiled by *Forbes*, many of the homes on the list started out at higher asking prices. However, business savvy buyers have managed to negotiate sellers down. In other instances, the sales actually set records for their locations.

Here are the 11 most expensive luxury real estate purchases of 2018:

1 \$110 million, Malibu, Calif.

A Malibu listing that was sold to oil and gas executive Michael Smith broke records at \$110 million. The 7 bed, 9 bath home was purchased from Hard Rock Cafe founder Peter Morton in an off-market deal.



house at 520 Park Avenue. This 54-story building has resulted in some of the highest priced sales in New York. However, this \$73.8 million purchase for a 6 bed, 6 bath unit topped them all.

3 \$68.8 million, Los Angeles, Calif.

Coming in third place is a \$68.8 million Los Angeles home that was purchased by an LLC connected to billionaire Bruce Karsh, who is estimated to have a net worth of \$2 billion. The previous owner of the home was Frank Sinatra, according to the *Hollywood Reporter*.

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4 \$66.25 million, Los Angeles, Calif.

Another Los Angeles property sale made the list. It was purchased by Australian casino magnate James Packer. The home which was previously owned by Danny Devito and Rhea Perlman, originally went on the market for \$80 million, but the price was negotiated down to \$66.25 million.

As the trends indicate, several homes on the list were purchased at a discount from their original prices. In 2018, many luxury homes sold at discounted prices, given that negotiation is expected.

“In terms of homes sold, the fourth quarter of 2018 was the weakest in two years for the luxury market. The volatile stock market and high mortgage interest rates that peaked in November are most likely to blame. The good news is the stock market has been more stable in the first weeks of 2019, and mortgage interest rates have come down as well,” said Daryl Fairweather, Chief Economist at Redfin.

5 \$62 million, New York City, N.Y.

Another condo at 520 Park Avenue was sold to billionaire Ken Moelis who purchased a 6 bed, 6 bath unit for \$62 million. Moelis is an advisor to Saudi Arabia’s national oil company Aramco.

Other sales that made the remaining six spots on this list include:

6 \$59 million, New York City, N.Y.

7 \$56 million, Bel Air, Calif.

8 \$55 million, New York City, N.Y.

9 \$53.9 million, New York City, N.Y.

10 \$48.8 million, Naples, Fla.

11 \$46.1 million, Kauai, Hawaii

It seems that home sales at the very top of the market managed to reach new records. However, the sale prices were not as high as they could have been. As 2019 continues, the luxury market is expected to see more softening. This will eventually have an impact on home sales at lower price points.

While there are no immediate warning signs, the price softening is a cause for concern. However, if 2019 luxury home sales stabilize, the market may reach equilibrium and continue to climb upward once again.

Study Says Power Lines Affect Property Values



A new study found a home’s proximity to power lines has a significant impact on its value. The study, done by assistant professors Chris Mothorpe and David Wyman, was published in the *Journal of Real Estate Research* by College of Charleston.

The researchers found that vacant lots located adjacent to high-voltage transmission lines sell for 45 percent less than equivalent lots not located near transmission lines. Lots not adjacent to transmission lines but located within 1000 feet of the lines sold at an 18 percent discount.

The researchers used vacant lots rather than prices of existing homes in order to exclude the impact of the housing structures on prices. Assuming a market where land accounts for 20 percent of a home’s overall value, the study’s authors noted that the 45 percent decrease translates to a drop in total property value of around 9 percent.

The researchers also developed a “Tower Visibility Index” that was designed to account for a property’s proximity to a transmission line and whether features such as trees or hills can hide the line from view. The researchers concluded the impact of transmission lines on property values can be summed up to potential health concerns (albeit unproven), unattractive views, and the noise produced by the transmission lines.



Rich Are Fastest Growing Segment of Renters



High net worth individuals are increasingly renting, according to the findings of several studies. Renters who earned \$150,000 or more per year have become the fastest-growing group of renters, according to a recent study done by RentCafe.com, an apartment listing site. Researchers analyzed pricing and demographic data from the U.S. Census and rental listing sites Redfin and PropertyShark and apartment real estate research firm Yardi Matrix.

“Between 2007 and 2017, top-earning renters increased by 175%, while homeowners within the same income bracket exhibited a 67 percent growth rate,” the RentCafe.com study revealed. “Out of the 43.3 million renters nationwide, 2.1 million are top earners according to the latest available U.S. Census data. Back in 2007, there were only 774,000 high-income renters.”

Another study done by the Joint Center for Housing Studies of Harvard University found the number of renters with incomes higher than \$100,000 increased by 5 percent in 2017. During the years 2012 to 2017, the number of renters in this group increased to approximately 2.6 million.

“The barrier for entry [into the housing market] is higher than it used to be,” said Trulia’s chief economist, Issi Romem. He notes that even some affluent buyers cannot afford to buy.

In addition, some affluent people simply do not want to own homes. “There has been a change in the attitude toward homeownership after the financial crisis, particularly amongst higher income households,” said Tendayi Kapfudz, the chief economist at LendingTree.

Some Homeowners Decline Refinancing for Lack of Trust in Banks



Following the 2008 financial crisis, financial institutions and policymakers came up with strategies to help troubled homeowners. However, a new study uncovered that millions of Americans did not take advantage of these options due to a mistrust of banks. American homeowners who received the offer but decided against refinancing missed an opportunity to save an average of \$9,000, perpetuating the housing distress that soon emerged from the crisis.

The study, which was performed by professors at Columbia Business School, analyzed preapproved refinance offers sent by “a major financial institution” to 550,000 borrowers via the Home Affordable Refinance Program. The offers did not require borrowers to do any work to initiate the refinance or pay any fees because they were created specifically by the government as a response to the financial crisis.

Despite the offers being made available at favorable conditions to borrowers, 51 percent of potential borrowers chose not to refinance. The offers, intended to entice borrowers, included cashback rewards and gift card rewards as immediate incentives to apply for the refinance.

“We report the results of three field experiments showing that enticing offers made by banks fail to increase participation and may even deepen suspicion,” the authors wrote. “Our findings highlight the important role of trust in financial decisions.”



Living Near a Highway Can Boost Home Values



When it comes to home values, proximity to a major highway is reflected in home prices, according to a Dutch study published in the journal *Transportation* in 2016. The researchers concluded that highway construction has a “generally positive” effect on area housing prices. However, this effect does not extend to all homes and the exact location of the home matters.

In this study, Or Levkovich, a postdoctoral fellow in spatial economics at Vrije Universiteit Amsterdam, and the other researchers uncovered that highway developments correlated to a 5 percent boost in home prices prior to the opening of a new highway. In the years following the completion of the highway, home prices received a 2.5 to 4.3 percent boost.

The results of this study track with those from a study done by researchers at Florida Gulf Coast University and appraisal firm American Valuation published in the *Journal of Sustainable Real Estate* in 2015. The 2015 study found there was a similar correlation between home values and noise and accessibility. However, researchers also uncovered that sales prices were four percent lower for homes directly adjacent to highways as compared to sales figures for homes located near but not directly adjacent.

Additionally, prices declined by 2.5 percent for each additional mile of driving distance between a house and the closest highway on-ramp. Overall, both studies show that living in proximity to a highway boosts home values, but extreme closeness or distance seems to have a negative effect.

One in Four Homeowners Plans to Purchase a Smart Lock in 2019, Study Says



Smart home security devices are growing in popularity among American homeowners thanks to their increased affordability, accessibility and convenience. A new study from Parks Associates found smart locks could become the next major security purchase for American households. Nearly one in four homes in the United States plan to buy a smart door lock within the next year, according to the study’s findings.

Roughly 35 percent of U.S. households with access to broadband internet consider smart locks to be affordable, which makes it even more likely that homeowners will use the devices in their homes. Smart home security devices are trending among consumers because smart locks are now a common offering from some of the largest lock manufacturers in the industry. Lock companies, such as Schlage, Kwikset, and Yale, now offer smart locks. There are also smart lock offers available from upstarts like LockState, Latch, and Array by Hampton.

“Many innovative builders are starting to include built-in smart home solutions in their models,” said Denise Ernst, vice president of Parks Associates. “Smart door locks are an easy and obvious addition to new homes and multifamily constructions, so partnerships with homebuilders and real-estate developers will have significant implications in broadening the user base.”

Rate of Homes Hitting the Market Near 10-Year High



RE/MAX real estate agents report there are now more homes for sale than in the past decade, according to the latest housing report. RE/MAX, a major global real estate franchise, released the data as a part of its monthly National Housing Report.



This latest report found the largest year-over-year increase in housing inventory, a sign the market is becoming more favorable to buyers, according to the RE/MAX CEO. While year-over-year home sales declined by 11 percent, inventory increased by an average of 6.4 percent in that same timeframe across the 54 U.S. metro areas included in the report.

Additional findings from the report indicated that January 2019 also marked the fourth consecutive month of year-over-year home inventory increases, with January's 3.9-month supply higher than last year's 3.4-month supply.

In another sign the market is changing in favor of buyers, nine out of the 54 metro areas surveyed in the report had a supply equal to or greater than six months. These conditions are typically an indicator of a buyer's market.

Real Estate Websites Want to Buy Homes Directly from Homeowners

Direct home buying companies are vying to become a major force in the real estate industry. Offering the promise of a quick and easy sale for home owners and backed by venture capital funds, these companies intend to capitalize on the notion that many consumers view the home buying and selling processes as difficult.



Real estate tracking website Zillow announced recently that it plans to launch Zillow Offers in Central Florida later this year, joining Opendoor, a competing service that buys homes directly and already operates in the area. Opendoor and Offerpad purchased over 500 homes in Orange County, Fla. in 2018, according to an analysis performed by *Orlando Sentinel*.

The direct home buying companies, often referred to as iBuyers,

rely on technology to uncover which homeowners are ready to sell in price stable neighborhoods. Instead of acting as real estate investors, the companies make money on the fees and the potential of making a slight profit on sales.

"They buy in volume to make a profit and get to the front of the line ahead of real estate agents with marketing and technology," said Ken Johnson, a real estate economist at Florida Atlantic University.

Opendoor says it welcomes real estate agents into the process and will pay standard fees in order to represent buyers. Zillow also says it will work directly with real estate agents on buying and selling.

"I've actually lost two sales to Opendoor," said Kyle Lawrence, a real estate agent in Clermont, Fla. "They take advantage of the stigma that home selling is hard. But if you put a home on the market, you might be able to get more money."

Seniors Impacting Housing Shortage, Study Finds



Millions of senior citizens are staying in their homes longer, making it more difficult for younger Americans to become homeowners. An analysis done by economists at Freddie Mac found 1.1 million homes are "off the market" because of owners who were born between 1931 and 1941. Another 300,000 homes are currently occupied by those born between the years 1942 and 1947.

Among the youngest seniors, 250,000 homes are considered to be off the market because they are still occupied by baby boomer homeowners. Baby boomers are those who were born between the years 1948 and 1958. However, the majority of analysts believe there will be a large wave of baby boomer retirements that could shift the current dynamic in the housing market.

Freddie Mac's economics team had previously reported a shortfall of 2.5 million housing units across the country. This shortage



of homes is a significant barrier preventing the entry of first-time homebuyers into the housing market.

“We believe the additional demand for homeownership from seniors aging in place will increase the relative price of owning versus renting, making renting more attractive to younger generations,” said Chief Economist Sam Khater.

He also believes it will help boost spending on home renovations.

4 Myths About Customer Loyalty



Building trust and establishing long-term relationships with clients are two keys to success in real estate. However, this is where most agents make mistakes. Client loyalty isn't built on over-the-top gestures or gifts, which is what some agents think.

Although these extra measures can help sway clients somewhat, they are not the best way to ensure client satisfaction, let alone guarantee they return for more business or send referrals your way.

Instead, you need to fully understand the goals of your client and tailor your advice as an agent so it speaks directly to their unique needs. Agents also must challenge accepted though often misguided industry ideas about customer loyalty.

Here are four myths real estate agents believe about customer loyalty and what to do instead.

1 The Best Agents Are the Ones Who Are the Nicest

Being a nice or agreeable person does not make for a good agent. It's the agent who gives the best advice — that is, advice that leads to better outcomes for clients — who is at the top of their game. Becoming a top agent means you have to be able to teach your client something they can't easily learn online.

Are they considering a neighborhood that is falling behind in economic activity or experiencing declining home values? Speak

up and let your client know you have better ideas. Let them know that you understand what they need, and use your knowledge and experience to deliver value they can't get elsewhere.

2 You're Only There to Help Clients Find Listings

Agents are no longer the only go-to individuals when it comes to finding listings and touring homes. Thanks to real estate websites and apps, buyers can find this information without having to contact an agent at all.

Your goal as an agent is to provide localized expertise about the home search so your buyer can find the property that best matches their financial situation, needs, and preferences.

3 The Client Always Knows Best

This longstanding adage works to an agent's disadvantage in most situations. If you know your worth, you should always regard yourself as the expert in the equation. Your clients approached you for your specific knowledge so don't be afraid to give them your honest feedback. Show them you understand their needs and can deliver results, which is why you're worth your full commission.

4 It's All About Making Customers Excited

You don't have to go overboard with gifts and perks to build strong relationships with your clients. Taking clients to expensive lunches or giving nice housewarming gifts might make them happy temporarily but it's not going to make them use your services again.

The bottom line is you're here to make your client's real estate journey successful and as hassle-free as possible. It's your job to deliver what is expected and if you can do it with a good bedside manner, you're almost always guaranteed to receive loyalty in return. It's the bad experiences that stand out the most and if you can avoid them, the odds of establishing successful, long-term client relationships are in your favor.



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