Real Estate Digest

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Buying a Home Before 35 Gives Homeowners a Boost During Retirement

Today's young adults are less likely to own homes as compared to Gen Xers and baby boomers at the same age. The Urban Institute recently conducted a study to investigate why millennials have lower homeownership rates than prior generations. However, the long-term impact of delays in homeownership is not well understood.

Despite the lack of research into this topic, the analysis performed by the Urban Institute uncovered some surprising facts. Delaying homeownership has the potential to reduce the wealth millennials generate over their entire lifetime.

The Majority of Today's Older Homeowners Purchased Their Homes Before Age 35

Using the Panel Study of Income Dynamics (PSID), a dataset that has tracked U.S. individuals since 1968, the Urban Institute reviewed people who reached age 60 at some point between 2003 and 2015. The dataset was also adjusted to account for the fact that the PSID began to perform the survey on a biannual basis in 1997.

The findings uncovered that older adults became homeowners at a younger age than the young adults of today. Roughly 50 percent of the adults in the sample purchased their first home between 25 and 34 years old. An additional 27 percent of older adults purchased their first home before age 25.

In contrast, only 37 percent of household heads ages 25 to 34 and 13 percent of young adults ages 18 to 24 had purchased a first home as of 2016.

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Older Adults Who Bought Earlier Had Greatest Housing Wealth by Age 60

Earlier home purchases played a large factor in determining how much housing wealth an older individual had in 2015. For older adults who bought their first home between the ages of 25 and 34, their median home equity, in 2015 inflation-adjusted dollars, was nearly $150,000.

Older individuals who bought homes after 34 years of age had significantly lower housing wealth. For older adults who waited until they were 35 to 44, the median housing wealth was $72,000 lower. For older adults who waited to age 45 or later, their median home wealth was over $100,000 lower.

Although buying earlier made a major difference for older adults in terms of median housing wealth, those who bought the earliest did not end up with the highest median home equity.

The study attributes this finding to the fact that the youngest buyers were the most inexperienced. They had lower incomes, less education, and purchased lower-priced homes. The median first-home value for the earliest buyers was less than $70,000 while the median first-home value was roughly $125,000 for the three other age groups.

Overall, the study's findings indicate that among older people, those who purchased their homes before age 25 received the biggest returns on median home equity.

Earlier Buyers Live in More Expensive Homes Now and Have Less Mortgage Debt at Age 60

For the older adults who purchase their first homes at younger ages, their greater home equity was the result of home price appreciation and paying down mortgage debt. Those who purchased their first home between the ages of 25 to 34 now live in more expensive homes than adults who purchased their first homes earlier or later. For those who were first-time homebuyers at age 25 to 34, the median house value at age 60 was $240,000.

Buyers Tap into Home Equity, Even As Mortgage Rates Rise

As mortgage rates rise, buyers continue to tap into home equity by using refis to extract cash from their homes.

According to Freddie Mac, over 80 percent of buyers who opted to refinance during the third quarter used the "cash out" option, collectively withdrawing $14.6 billion (U.S.) in equity from their homes. This figure marks the highest share of cash-out refis since the housing crisis of 2007.

The trend also reflects the state of the U.S. economy, which experienced a sharp rise in home values over the past nine years. During the same period, worker pay rose at a much slower pace. The result is that homeowners are using their homes as a source of wealth to make up for the lack of pay raises at work.

"Home equity is the big pot of gold," said Sam Khater, chief economist at Freddie Mac.

The increase in cash-out refis also reflects the impact of rising mortgage rates on the housing market. Higher rates make buying a home more expensive and slows down home sales. Rate-based refinances, which offer homeowners lower rates on their mortgages, are also declining, which is why homeowners are turning to cash-out refis.

According to Freddie Mac, the average rate for a 30-year fixed-rate mortgage was 4.81 percent as of November 21, 2018, which represents an increase of nearly 1 percent from the end of 2017.

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Existing Home Sales Rise for the First Time in 6 Months

Existing home sales rose for the first time in October after declining for six consecutive months. Home sales rose in three of four major U.S. housing market regions.

Total existing home sales, which include the completed sales of single-family homes, townhomes, condominiums and co-ops rose 1.4 percent from the previous month to 5.22 million in October 2018, according to a report from the National Association of Realtors. The report also revealed that home sales declined 5.1 percent year-over-year.

"After six consecutive months of decline, buyers are finally stepping back into the housing market," said NAR Chief Economist Lawrence Yun. "Gains in the Northeast, South and West — a reversal from last month's steep decline or plateau in all regions — helped overall sales activity rise for the first time since March 2018."

First-time homebuyers represented 31 percent of sales in October, a one percent decline compared to the same time last year, indicating that rising interest rates continue to have a negative impact on the rate of first-time home buyers.

The median existing home price for all housing types rose to $255,400, marking a year-over-year increase of 3.8 percent and the 80th consecutive month of year-over-year gains.

Foreign Real Estate Investors Increasingly Find Value Outside U.S. Metro Areas

As real estate prices reach record highs in the largest U.S. metro areas, foreign investors are putting money into the next-best markets. The shift comes as population growth continues well above the nationwide average in second-tier cities, such as Denver, Colo. and Salt Lake City, Utah, according to a survey conducted by PwC and the Urban Land Institute.

Toronto-based Starlight Investments, a firm that has topped the list of foreign buyers for the past decade, is among companies from China, Canada and Germany that are investing. For the first time in 2018, Starlight Investments purchased apartment complexes in the suburbs of Phoenix, Ariz. and Atlanta, Ga.

"There were really only a handful of people when we first started looking at the suburbs, and that handful is now a larger number of people that are looking at those deals," said Raj Mehta, global head of private capital and partnerships at Starlight. "We were increasingly seeing that jobs were moving from traditional Northeast and Northwest corridors into the sunbelt states."

While the major metro areas still attract the bulk of foreign real estate investment, rents in these markets have reached record highs. As a result, foreign investors are focusing on markets where they see yields rising and larger potential returns. Dallas, Texas, California's Inland Empire, and Philadelphia, Pa., are currently the most popular second-tier markets for investment among foreign buyers.

Home Flippers Leave the Market as Flipping Profits Shrink

A combination of higher costs and lower demand is causing home flippers to flee the market. Home flips, which are defined as homes that are purchased and sold within a 12-month period, declined 18 percent nationally in August 2018 as compared to the same

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period in 2017, according to Attom Data Solutions.

Home flipping volume has been declining by double-digit percentages for three of the past six months. Gross flipping returns fell to their lowest level in August. It also takes an average of 186 days to sell a flipped home, which is the longest since June 2006.

"It's not only becoming more expensive on the purchase side of flipping, but it's becoming more expensive on the fix-up side of flipping," said Mark Bethanis, a Los Angeles-area contractor, who has flipped homes for 30 years.

Home prices have risen to record highs in the past two years and now mortgage rates are also on the rise. Labor and materials costs are up. Flippers also have less inventory to choose from as the national foreclosure rate is low and older homeowners who might have downsized in the past are now staying in their homes.

Home flipping activities are also now more organized than they were following the 2008 real estate crisis. While independent contractor crews were doing most of the work then, now there is significant competition from large-scale flipping companies.

Home Price Gains Decline Below 6 Percent for the First Time in a Year

Home price gains have begun to stabilize in many markets across the U.S. as home sales slow. The rise in mortgage interest rates combined with rising home prices have become just too much for some buyers, especially first-time home buyers. Not only are there fewer sales, the number of listings is on the rise, causing homes to stay on the market longer.

Nationally, home prices rose 5.8 percent in August 2018 as compared to the same time one year earlier, according to the S&P CoreLogic Case-Shiller home prices index. The 10-City Composite rose 5.1 percent annually, marking a decline from 5.5 percent in the previous month.

The 20-City Composite saw a 5.5 percent, year-over-year gain, a decrease from 5.9 percent during the previous month. As supply and demand within the housing market becomes more balanced, analysts expect that home prices will fall back to more normal levels of 3 to 4 percent annual gains.

Even as gains decline, some local markets are retaining price strength. Las Vegas, San Francisco, and Seattle experienced the largest annual gains among the 20-City index. In August 2018, Las Vegas home prices experienced a 13.9 percent year-over-year increase. San Francisco saw a 10.6 percent increase and Seattle had a 9.6 percent gain. Of the 20 cities in the index, four reported larger price increases as of the year ending in August 2018 versus the year ending in July 2018.

Mortgage Applications Decline to 4-Year Low as Homebuyers Exit Market

The housing market is slowing as potential homebuyers have decided to wait it out. The volume of mortgage applications fell to the lowest level since December 2014 during the last week of October, according to a new report from the Mortgage Bankers Association.

Purchase applications declined by 5 percent, marking a near two-year low while applications to refinance an existing loan declined by 3 percent. The 30-year fixed-rate mortgage rate rose to 5.15 percent in October to reach a high not seen in at least 8 years.

Potential buyers face a variety of unfriendly housing conditions which are impacting their decisions not to buy. A home inventory shortage and rising home prices, coupled with increasing mortgage

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rates, place a tremendous amount of pressure on would-be homebuyers.

"That means they qualify for less" in a competitive housing market, says Pava Leyrer, chief operating officer of Northern Mortgage Services in Michigan. Some potential buyers are still opting to purchase any homes they can qualify for given the limited inventory, she says.

Refinancing to lower rates is also no longer an option for many homeowners, thanks to higher interest rates. The share of refinances declined 0.3 percent from the previous week to 39.1 percent of total applications during the first week of November 2018.

U.S. Housing Starts Rise for Multi-family as Single-family Housing Declines

U.S. homebuilding rose in October 2018 thanks to an increase in multi-family home projects. The report, published by the Commerce Department, noted improvement in the multi-family sector as the single-family housing market continues to lag. In October, single-family home construction declined for a second straight month.

Single-family homebuilding, which makes up the largest share of the U.S. housing market, declined 1.8 percent to a rate of 865,000 units in October. Single-family homebuilding continued to trend downward last year after it reached a record pace of 948,000 units in November 2017.

As single-family homes decline in affordability, the rental housing market is improving.

"Many renters have opted to renew their existing leases because they feel they are priced out of the housing market," said Mark Vitner, a senior economist at Wells Fargo Securities in Charlotte, North Carolina. "We could see a bit more strength in apartment starts in coming months."

Starts for multi-family housing increased 10.3 percent to a rate of 363,000 units in October 2018. The permits for multi-family home construction declined by 0.5 percent to a pace of 414,000 units. Despite the decline, multi-family homes accounted for just over 50 percent of housing inventory under construction in October 2018.

National Homeownership Rate Rises to 64.4 Percent

Homeownership increased among Americans last summer, providing new evidence of a housing market that may be stabilizing. A Census Bureau report found that the national homeownership rate was 64.4 percent in the third quarter of 2018.

The national homeownership rate is still down nearly 5 percent from the all-time high of 69.1 percent it reached in 2004 at the peak of the housing bubble. Following the housing crisis, the homeownership rate declined to a low of 62.9 percent in 2016 as Americans lost their homes.

Despite recent gains, the slight recovery in the homeownership rate only puts the figure back at 1995 levels. Analysts believe that the uptick is a result of push back against hefty home price gains, which allowed more potential homebuyers to become homeowners last year. Analysts also see the potential for further gains in the national homeownership rate, if housing market conditions continue to ease.

There are still many challenges ahead for homebuyers. Available home inventory remains at historic lows even as home price gains continue. The vacancy rate for homeowners was just 1.5 percent in November 2018, marking a 0.1 percent decline from the average vacancy rate throughout 2017.

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How to Stand Out as a Top Online Realtor

In today's competitive housing market, Realtors need to reach potential clients both offline and online. However, it's becoming more difficult to reach the right people at the right time.

The reality is that agents who stand out online have figured out how to reach their target audience effectively. If you're looking for ways to get ahead of the competition when it comes to digital marketing, here are the steps to follow to become a top Realtor online.

1 **Create an Awesome Website**

If you work for a large real estate agency, such as Century 21 or Keller Williams, you'll receive a website on the firm's domain. However, a generic agency website is not enough to make you stand out from other Realtors in your local area who also represent the same agency.

If you want to stand out from the competition, build your own website and market yourself as an individual. You will develop your own personal brand which you can use to your advantage in advertising your real estate listings.

2 **Offer Free Giveaways**

Potential clients need to see that you're willing to help them before they decide to hire you. You can do this by giving away tons of valuable information for free.

Create a free ebook or guide filled with tips for first-time homebuyers or sellers. When a potential client visits your website, they'll be able to receive the information simply by entering an email address. By requesting their contact information in exchange for the free offer, you'll be able to follow-up with additional marketing.

3 **Use "Google My Business" to Improve Your Firm's Visibility Online**

Google will send you free traffic once you claim your business and verify your address, so take advantage of it! Once your firm's listing is set up with "Google Local Business" make sure to complete your profile by uploading photos of homes, happy clients, and the neighborhoods that you cover.

You should also solicit reviews from your current and former clients as reviews are one of the most important factors that will drive leads. According to RocketDigital, people are 63 percent more likely to buy from businesses that have been reviewed on Google.

When a potential client searches your firm's address on Google Maps, the reviews will be displayed there. Having plenty of 5-star reviews will mean more interest from potential clients.

4 **Become the "Go To" Realtor for Your Area**

It's not enough to simply sell homes in your city, you need to find a specialty. Whether it is a specific type of property, client or neighborhood, establish a specialty and make sure that it is reflected in all of your marketing materials.

5 **Sponsor Events and Fundraisers**

One easy way to do this is by sponsoring a youth sports team. Printing your name on t-shirts and creating signs for the event will increase the visibility of your business and establish your business as a trusted real estate firm in your neighborhood.

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