Real Estate Digest

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Will the Death of Shopping Malls Save Suburbia?

Just as Levittown-style suburban developments helped to define the U.S. in the years following World War II, so did suburban malls. However, suburban malls are now in danger of being rendered obsolete by digital technology.

Just as the internet relegated CDs, travel agents and snail mail to the history books, it is also having a devastating impact on brick-and-mortar retailers as shoppers increasingly opt to shop online. Foot traffic in the majority of the nation's largest malls is already declining, and major mall retailers have filed for bankruptcy.

While most municipalities are struggling with what to do with the empty space, some are seeing dead shopping malls as a way to reinvent sleepy suburban landscapes. They are transforming the spaces into public parks, hockey rinks and medical complexes. In other cases, they are being redefined as walkable urban developments.

Former Malls Are Becoming Mixed-Use Developments

There are now nearly 300 former malls in the United States that have become mixed-use developments, according to Ellen Dunham-Jones, an architecture and urban design professor at the Georgia Institute of Technology in Atlanta. In addition, about 50 of the conversions include housing.

This format allows people to enjoy a taste of city living while also spending less on mortgage and rent payments than they might in a major metropolis. Developers are also taking interest in many of these empty shopping centers because they are roughly the size of planned communities and subdivisions, and they are usually located near existing residential neighborhoods.

Luxury Shopping Malls Are Still Doing Well

The death of the shopping mall doesn't necessarily apply to high-end shopping meccas. In fact, many still do well because they provide experiences that shoppers can't get online. Luxury malls offer perks, such as valet parking and chic boutiques with fitting rooms that have photo capabilities.

Redefining Outdated Malls Breathes New Life Into Municipalities

In some cases, the conversion of older malls into high-end shopping malls can actually revitalize neighborhoods. Boca Raton performed such a renovation with the development of Mizner Park, which increased property values in the area by about 14 times.

In addition, the nation's first urban shopping mall in downtown Providence, RI, underwent a similar transformation, which helped to rejuvenate the surrounding community. In 2013, the Arcade Providence was turned into 48 affordable microapartments on the second and third floors, with 17 unique boutiques (no chains allowed) on the ground floor.

"It's revitalized the whole downtown area, because it's brought shops and people living there," says local Realtor® Sam Glicksman of William Raveis Realty. "Prices have gone up because demand has gone up.…A lot more people want to live downtown [now]."

What to Do with Shopping Malls in Lower-Income Communities

Unfortunately, this strategy may not work for every community. If residents can't afford the rents or support the shops and restaurants, then these developments can't succeed. In these cases, tearing down malls or turning them into spaces like parks can help to improve property values over time, says Dunham-Jones.

Home Purchase Sentiment Declines in September

In September, consumers were less inclined to buy a home, thanks to concerns about interest rates, home prices, and concerns over changes due to the recent presidential election in the U.S. The Fannie Mae Home Purchase Sentiment Index (HPSI) fell 2.2 to 82.8 between August and September. This is the second consecutive decline since the survey saw a record high in July 2016.

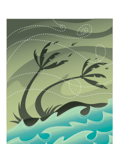
Out of the six components that make up the index, the largest decline occurred in the share of consumers who expect mortgage rates to decrease in the next year. This figure declined by 6 percentage points, as more consumers expect that mortgage rates will actually increase. Additionally, the second biggest decline was in the share of consumers who believe that right now is a good time to buy. This component dropped by five percentage points.

The only component of the index to see an increase was the share of consumers whose household income rose from a year ago.

"The starter-home tight supply and rising home prices as well as the unsettled political environment are likely giving many consumers a reason to pause or question their home purchase sentiment," Fannie Mae chief economist Doug Duncan said in a news release.

He also suggested that housing industry professionals be cautious going ahead due to this decline in HPSI from the survey high of 86.5 in July, alluding to the fact that there may be additional declines in the index on the horizon.

Hurricane Matthew Damage Could Top $6 Billion



CoreLogic, a research and consulting firm estimated insured property losses for both residential and commercial properties from Hurricane Matthew at between $4 billion and $6 billion from wind and storm surge damage.

The October hurricane caused extensive damage in four states — Florida, Georgia, South Carolina and North Carolina — before it headed to the warm waters of the Atlantic Ocean as a post-tropical cyclone. North Carolina bore the worst of the storm, experiencing major flood damage due to extensive river flooding, which lasted for many days after the storm had already passed.

These estimates do not include the insured losses related to additional flooding, business interruption or contents. CoreLogic reported that 90 percent of the insurance claims were expected to be related to wind damage and 10 percent were expected to be related to storm surge.

So far in 2016, the United States has experienced 12 separate weather disasters that have each exceeded the $1 billion damage amount, according to an NOAA report. This is the second-highest number for any single year. The United States only experienced more weather disasters in 2011, when 16 weather disasters occurred.

Mark Zandi, chief economist of Moody's Analytics, found that roughly two-thirds of the economic losses from hurricanes dating back to the year 1989 were related to property damage, while roughly a third resulted from lost economic output.

Appraiser Shortage Causing Delays in Home Sales

The demand for housing is rising rapidly. However, a new study has found that the appraisers needed to close the deals are disappearing. As a result, closing delays are increasing, which is costing buyers and sellers money and even causing some deals to fold.

According to Campbell/Inside Mortgage Finance, the share of on-time closings has dropped from 77 percent last April to 64 percent in 2016 for loans backed by Fannie Mae and Freddie Mac. During this time, appraisal-related issues that contributed to delays increased by 50 percent.

Since 2007, the number of appraisers has declined by 22 percent, according to the Appraisal Institute. In addition, more than 60 percent of appraisers are over age 50. The industry blames the decline in new appraisers on regulations put in place by the FHA, Fannie Mae and Freddie Mac, which disallowed appraiser apprentices from doing full appraisals and instead required the licensed appraiser to be on-site for every inspection.

As a result, appraisers no longer see the value in hiring apprentices. The licensing requirements to become an appraiser require 2,500 hours of training as an apprentice in two years. Although changes to the current appraisal system are currently under consideration, so far there is no short-term fix for the problem.

When they prevented trainees from being able to inspect the property, "…I don't think they understood the trickle-down effect it would have on the entire mortgage market nor did they understand how trainees were used by the appraisers within the mortgage market," said Brian Coester, CEO of Rockville, Maryland-based CoesterVMS, a national appraisal management company.

First-Time Home Buyers Face New Challenges

If there is one factor that has defined the residential real estate market over the past few years, it's the extraordinarily low supply of homes for sale. For months, buyers have reported that finding a home that meets their needs was their biggest challenge, according to surveys by the National Association of Realtors®.

However, in August finding a home no longer was the top issue keeping buyers from making home purchases. In fact, NAR found that the new problem was time, as 35 percent of buyers had reported that they were just starting to explore the market and were not yet ready to buy.

Additionally, in August 51 percent of survey respondents were first-time home buyers. These buyers also reported having financial difficulties, with 9.4 percent having difficulty in qualifying for a mortgage and 25 percent not having enough money for a down payment. Additionally, the number of buyers needing to improve their credit scores before they could qualify for a mortgage doubled from 9.7 percent of all buyers in 2015 to 19.5 percent of buyers in August 2016.

The market has experienced some growth despite increasing prices in part due to pent-up demand from very qualified buyers. However, a key question for the months ahead is whether more first-time buyers will be able to qualify for a loan and be ready to close on a home.

U.S. Commercial Real Estate Sectors Approaching Oversupply

A new report published by REITCafe has found that certain U.S. commercial real estate sectors may be approaching oversupply. Despite the fact that construction has remained below historical trends, deliveries have increased.

Apartments: RentCafe, an apartment search website, recently reported that approximately 320,000 apartments will be delivered nationally in 2016. While national apartment statistics show a healthy market with positive rent growth and low vacancy rates, certain markets are experiencing oversupply. This is particularly notable with high-end markets like Manhattan and San Francisco becoming weaker, causing analysts to cut revenue forecasts several times during 2016.

Hotels: A forecast from STR, a firm providing benchmarking and data analytics for the hotel industry, estimates… that supply will outpace demand in 2017 for the first time since 2009.

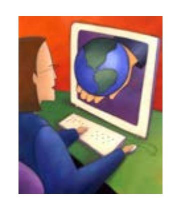
Offices: Office construction continues to be lower during the current real estate cycle as compared to previous cycles. However, concerns about overbuilding still exist in Dallas, Houston and New York.

Industrial: Industrial real estate is currently showing very few signs of overbuilding, with rising rents and declining vacancy rates.

Retail: Retail has shown some improvement during the year. However, the retail sector is suffering more from store closures and limited demand rather than overbuilding, according to Cushman & Wakefield.

In all, real estate market fundamentals are generally healthy on a national level. However, overbuilding is growing concern for certain property types in specific markets.

E-commerce Is Transforming Global Industrial Real Estate



E-commerce is having a major impact on the industrial real estate market. As a result, it has strengthened the fundamentals for industrial REITs in both domestic and global markets.

"While e-commerce is directly tied to only about 10 to 15 percent of GPT's portfolio now, e-commerce is projected to grow to 30 percent or more of the global economy and will have a real impact on industrial space," says Britton Winterer, senior vice president for investments at Gramercy Property Trust. "Every time we look at a building now we consider whether it could work as an e-commerce space."

Chuck Sullivan, head of the U.S. platform for Global Logistics Properties (GLP), says that GLP has experienced double-digit growth in e-commerce in every market where the firm invests, including the U.S., China, Japan and Brazil. As a result, many industrial real estate firms are projecting that e-commerce will continue to be a significant factor contributing to the growth of these firms in the future.

Chris Caton, senior vice president and head of global research for Prologis, says that e-commerce is growing globally by 20 percent per year. He believes that consumer consumption growth in developed markets, supply chain restructuring to facilitate shorter delivery times, and trade in gateway markets are the top three factors that have driven demand in the global industrial sector. In addition, e-commerce companies are focusing on building to suit their needs rather than speculative investments, as vacancies decline in most global markets and rents increase.

5 Things Buyers Should Look for When Buying Smart Homes

As homeowners turn to homes that can offer greater security, convenience and peace of mind, many are opting for smart homes. While these homes were previously only an option for the rich, today's developers are seeking to address the needs of average homeowner as well. Smart home features range from built-in efficiency to cutting-edge technologies that are designed to improve the comfort of the home's residents.

Here are five things that buyers should look for when buying smart homes and how agents can help them to identify what's important when it comes to searching for the right property to buy.

Energy-Efficient Features: When buyers invest in smart homes, they should look for energy-efficient features that will make their homes more cost-effective by avoiding power waste. These features, such as thermostat regulation and solar energy, help reduce utility bills.

Customization: Buyers should look for homes that suit their specific needs and already include some of the custom features they are looking for. Help your buyers come up with lists of must-haves and deal breakers, which will help them to make the right choices for their needs.

Budget: While modern features have made buying smart homes attractive, buyers should avoid the temptation to go overboard with extravagant perks they can't afford. Focusing on the most important features will help them to stay on budget.

Don't Ignore the Fundamentals: When buyers are focused on smart home features, they might forget about the importance of good location, neighborhood amenities and more. While automating a home is good, buyers won't get the resale value they expect if they ignore these fundamentals.

Think about the Future: Smart home technologies change every day and features that may be state-of-the-art today might be obsolete in the future. Before you recommend specific devices to your buyers, identify trending features and anticipate the future. If your buyers want to customize the home to their needs, they should remember that certain smart home features could make it more difficult to sell the home later.

Why Buyers Should Always Use a Real Estate Agent: Finding a smart home that offers the best mix of technology and traditional real estate amenities is another major reason why buyers should work with an agent rather than exploring for sale-by-owner properties. An agent can help buyers to determine what they need most and the best options based on budget, future needs, and the profile of the buyer.

Race and School Ratings Create Legal Gray Area in Real Estate

It's well known in the real estate industry that highly rated schools boost dollar values of nearby residential properties. Many studies have confirmed this — in fact, a 2013 national study found that better schools lead to an average premium of $50 a square foot.

However, some advocates for fair housing have found that too often there is a close tie between neighborhood racial composition and school ratings. The majority of states base their school ratings on standardized test scores, graduation rates and other easily measured factors, which have been shown to be heavily influenced by inequities of race and class.

"A lot of time, with schools that serve majorities of students of color, you get a negative rating because the test scores are low," says Genevieve Siegel-Hawley, an assistant professor who studies race and housing at Virginia Commonwealth University. But, she says, "most of the variation in test scores is explained by the kids' own poverty or the poverty of their school."

In addition, school budgets are often linked to local property taxes, which means that highly rated schools beget higher housing values. While real estate agents have been prohibited from discussing the racial composition of a neighborhood since the passage of the Fair Housing Act in 1968, the practice still occurs, according to a 2006 report by the National Fair Housing Alliance.

As a result, some housing experts are trying to determine whether providing school rating information on real estate websites and having agents provide their opinions about schools could lead to discrimination.

"If you're consistently undervaluing certain communities and overvaluing others, and there's a racial correlation, then there might be a problem." says Fred Underwood, director of diversity at the National Association of Realtors.

Agents' Corner

Real Estate Agents Can Now List Properties with Facebook's 'Marketplace'

After years of having to add property listings to news feeds and groups, real estate agents now have a formal way to post them to Facebook. The social media company has rolled out a new marketplace feature that allows people to post all sorts of things for sale, including homes.

More than 450 million people visit "buy and sell" groups on Facebook each month, according to a Facebook release. While the Marketplace is currently only available on the Facebook app for iPhone and Android, the company intends to make it available on the desktop version of Facebook in the upcoming months.

So far the company has shown a strong commitment to the new Marketplace, by providing an icon that links to the section in the center of the app's bottom navigation bar.

By clicking the Marketplace icon, Facebook users can pull up a search page where they can filter for Marketplace listings based on location, category, and price. One of the listing categories in the "Classified" section is "Housing."

Once a potential buyer finds a property that interests them, they can contact the agent representing the property directly to tell them that they are interested and make an offer. From there, the real estate agent can work out the details directly with the potential buyer. Facebook does not facilitate the payment or delivery of items in the Marketplace.

"The reason I feel agents should pay attention to this is because [Facebook] rearranged their app for it," says Nick Baldwin, an administrator of the Facebook group, Lab Coat Agents. "They put the marketplace in the most prime location ... this leads me to believe they have big plans."