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Residential Real Estate Index
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University of St Thomas Twin Cities Housing Market Update

April 2019

iBuyers are Changing The Landscape of the Housing Market

What is an iBuyer?

An **iBuyer** is a company, in many cases an institutional investor, that will make an offer on your home within hours (or days) based on a proprietary valuation model. If you choose to accept the offer, you can close the sale in as little as a couple of days. The recent big news in the Twin Cities market is that last Monday Zillow began offering its Zillow Offers service to home sellers in the Twin Cities. The Twin Cities is the 10th metro area in the nation where they are offering this service. In addition to Zillow there are a number of local and national iBuyers here already with a number of new companies on the way.

How is the iBuying process different?

Traditionally, home values are calculated by using recent comparable sales of similar homes in the nearby area. The issue is that no two homes are identical and adjustments need to be made to account for the differences. Some of these adjustments are hard to calculate and can be somewhat subjective. Many of the newer, well capitalized iBuyers use “automated valuation models” or algorithms using computers to process massive amounts of home sales data to arrive at a value. Based on that value and information that home sellers upload about their homes they can close a sale in as little as a few days. There are some iBuyers may require a visual inspection by a local real estate partner.

Is iBuying the apocalypse for traditional agents and brokers?

The short answer is No. Nationally, in 2018, iBuyers accounted for 0.2 percent market share. At this point, even in markets where iBuyers has been operating longer they are only accounting for 3 – 6% of the sales volume. As more home sellers become more familiar and comfortable with the iBuying process that percentage will undoubtedly increase. While a few iBuyers work directly with home sellers many of the iBuyer’s business models include working with and paying commissions to local real estate partners. Additionally, local Realtors do have the advantage of local market knowledge and are able to spot emerging neighborhood trends. As an example, look at what happened to the travel industry when technology made travel booking information directly available to individuals. At the time some were saying that it would be the end of travel agents. In reality travel agents have survived, however the industry has consolidated, become more sophisticated and has changed the way it does business.

Should I use an iBuyer?, What is the cost?, What is the Value Proposition?

Sellers are looking for a faster, simpler, less stressful way to sell their home. They want the process to be more efficient. Not all iBuyers offer the same services, some are full service, they want to be able to offer a one stop experience. Their process works like buying a car where you can buy a car, trade in your car, obtain financing and insurance all in one place. Since the larger iBuyers are buying and selling homes all the time, their business model works well taking trade ins. There others in the market who offer varying levels of service including those at the other end of the service spectrum who will only buy your home.

Average commissions using an iBuyer are about 7%, additionally their offer is discounted below fair market value. They expect to make necessary repairs and make a profit when they sell the home. In contrast commissions are about 5% - 6% for traditional sale listings. Sellers need to consider the trade off between convenience and maximum offer price.

The following are situations where a seller may consider using an iBuyer;

- If the purchase of your next home requires the sale of your current home, you may need access to the equity tied up in your current home. Many Americans can't qualify for two mortgages at the same time meaning they have to sell their current home before they buy the next one. In today's tight housing market contingent on sale offers are rarely successful.
- If you can't or don't want to do the work to repair or upgrade your property before you sell.
- If you're moving to a new city and need to be on the job ASAP, you may not have time to wait for your home to sell
- You've inherited a home you don't want to own or manage

iBuying can provide a quick cash option but this speed and convenience comes at a price. In many cases a local agent may be able to get you a higher price for your home if you have the time available. Is it worth it? That depends on your priorities and circumstances.

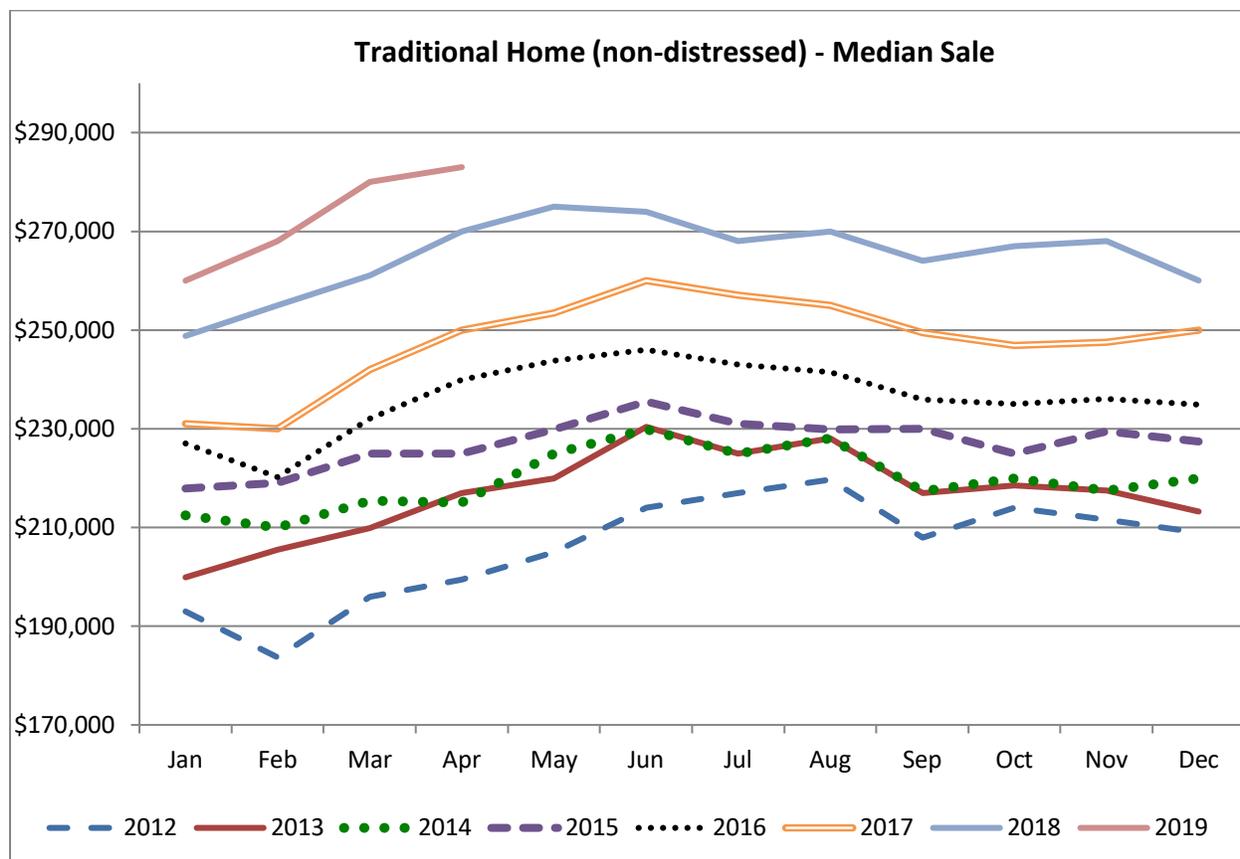
There is more to come

Look for more large iBuying companies to come to town. Much of recent iBuying activity is being driven by multi-billion dollar organizations. In addition to Opendoor, who entered the Twin Cities market last fall, there will be other new arrivals such as Knock, OfferPad and Redfin. With technology advancing at such a rapid rate there will be more concepts and companies entering the market like Ribbon and Eave that work on the other side of the transaction helping buyers compete with cash offers.

April Market Update

The median sale price increased slightly in April, up just over 1% from March and it recorded an 5.44% increase compared to April of 2018. The annual rate of increase in median sale prices have increased nearly 6% for every month so far this year. The number of homes for sale at 9,760 was up 2.7% compared to 9,505 recorded in March 2018. The low number of homes for sale continues to exert downward pressure on the number of closed sales recorded at 4,399 down 6.2% compared to a year ago. Pending sales was 5,715 down 0.19% compared to March 2018. New listings at 7,325 in April 2019 were 4.86% higher than one year ago.

Prices Continue to Climb



April 2019 Market Data					
1. Median Sale Price	April 2018	March 2019	April 2019	Monthly % Change	Annual % Change
Traditional	\$270,000	\$280,000	\$283,000	1.07%	4.81%
Short Sale	\$218,500	\$207,300	\$232,500	12.16%	6.41%
Foreclosed	\$179,900	\$192,500	\$195,000	1.30%	8.39%
2. Closed Sales	4688	3,690	4399	19.21%	-6.16%
Traditional	4519	3,555	4287	20.59%	-5.13%
Short Sale	36	21	22	4.76%	-38.89%
Foreclosed	119	104	83	-20.19%	-30.25%
3. % Distressed Sales	3.31%	3.39%	2.39%	-29.54%	-27.81%
4. Days on Market	53	66	56	-15.15%	5.66%
5. Month's Supply	1.9	1.8	2	11.11%	5.26%
6. New Listings	7325	6,167	7681	24.55%	4.86%
7. Pending Sales	5704	4586	5715	24.62%	0.19%
8. Homes for Sale	9505	9155	9760	6.61%	2.68%
9. % of Original Price	99.9%	98.00%	9.94%	-89.86%	-90.05%