Features

Winds of Change

Emerging trends, challenges and opportunities coming your way in 2019

BY MATT ALDERTON

January is a time for transformation. Some people want to transform their appearance by losing weight. Some want to transform their health by quitting smoking. Others want to transform their career by getting a new job, or their mind by adopting a new outlook. Still others want to transform their relationship, their bank account or their passport. If you ask residential REALTORS®, however, there's one thing they want to transform this year more than anything else: their business.

"I think the industry in 2019 is going to struggle; it's going to be a tough year," predicts Michigan RRC President Ursel Mayo, CRS, broker/owner at Mayo Real Estate Group in Shelby Township, Michigan. "The good news is: Brokers and agents can use that time to revamp."

Even if you don't need to revamp your business, now is an ideal time to at least refresh it, as 2019 promises to usher in a host of changes whose impact could permanently alter the course of your local market. Like houses in a hurricane, the REALTORS® who survive the coming winds will be those who reinforce their business with supports that are strong enough to withstand them.

The first step to buttressing your business is forecasting what opportunities and threats it will face in 2019. Here are five that every CRS should watch in the months ahead:

BY THE NUMBERS

Sales in 2019 are forecast to increase to

5.4 million,

a 1% increase, while home prices are expected to rise a modest 3.1% in 2019.

Source: NAR Chief Economist Lawrence Yun

1. Stagnant inventory

According to the National Association of REALTORS®, inventory has been trending downwards for the last five years and in 2018 reached its lowest level in a generation. Although there are signs of improvement, Dave Pautsch, CRS, expects the paucity of homes to persist.

"What I'm seeing in the market now is basically a gridlock between the two most populous generations: the millennials and the baby boomers," explains Pautsch, principal broker with RE/MAX Integrity in Albany, Oregon. Millennials, he says, are looking for the median-priced homes that many boomers own; boomers aren't selling, however, because they want to downsize or relocate instead of increasing their debt by moving up. This conflict and competition for the same affordable homes is one reason for the present lack in inventory.

Given this dynamic, Pautsch says he'll spend 2019 preparing for the day when boomers eventually sell.

"The smart real estate agent will do what I'm doing, which is shifting my focus to seniors," continues Pautsch, who is actively networking with senior service providers—elder law attorneys, financial advisors, in-home care providers, contractors who specialize in aging in place—and creating educational resources to help seniors transition to retirement. "Those relationships are going to build my business for the next 10 years as baby boomers downsize, relocate or move into assisted living."

Maria Dargan, CRS, is similarly focused on seniors. To stimulate inventory in her local market, one of her goals in 2019 is lobbying for developers to build more senior housing. "If we can encourage qualified builders to start building more adult communities for seniors, that would really help the situation," says Dargan, broker associate at RE/MAX Real Estate Ltd. in Brick, New Jersey. "Because baby boomers are retiring soon, lack of housing in these developments will be an issue."

2. Rising interest rates

Although they reached record lows in December 2008, when the Federal Reserve lowered its benchmark fed funds rate to 0.25 percent, interest rates have been inching upward since December 2015. By 2020, the Fed projects, the federal funds rate will reach north of 3 percent.

While the Fed doesn't directly set mortgage rates, its policies influence them. REALTORS® should therefore expect mortgage rates to continue rising in 2019, according to NAR, which expects rates to reach 5 percent this year.

"With interest rates climbing, it's a very difficult time for first-time homebuyers," Dargan explains. Because rising rates might discourage some would-be buyers from entering the market, buyer education will be especially important in 2019, she says.

"First-time homebuyers go into the process with a lot of fear. They worry: Am I going to be able to afford it?" says Dargan, who shows her buyers on paper what their resources are and what their costs will be—including mortgage interest, the impact of which is often negligible compared to the cost of renting. "They really need that education."

Joyce Tapscott, CRS, sees rising interest rates as helping the market instead of hurting it. After all, rising rates normally indicate a strong economy, and a strong economy is good for real estate. Take the thriving stock market, for instance. "People have made a lot of money in the stock market," says Tapscott, a broker affiliate at Coldwell Banker Wallace & Wallace, Realtors, in Knoxville, Tennessee. "As it continues to grow, people are taking their gains and putting them in real estate."

3. Reduced affordability

Affordability will continue to be a major obstacle in 2019, according to NAR, which says affordability reached a six-year low in 2018.

Along with low inventory and high interest rates, affordability is a function of new construction and wages, Mayo observes. REALTORS® who are concerned about affordability in 2019 should pay attention to both.

In terms of new construction, builders are building fewer homes, including fewer upgrades, and charging more money, according to Mayo, who cites rising material costs and a shrinking labor pool as causes. "It costs more to build today, and it's taking longer to complete projects," she says, explaining that REALTORS® this year must respond by recalibrating buyers' expectations around long-term value instead of short-term cost. "My goal is to remind [buyers] that they have to live somewhere—and that they might as well pay their own mortgage instead of someone else's."

Then there are wages: According to the Pew Research Center, the real average wage—the wage after accounting for inflation—had about the same purchasing power in 2018 that it did in 1978.

"That's why we're not seeing homes move," Mayo says. "If home prices keep rising, but wages aren't, people can't afford to buy."

A bright spot is companies like Amazon, Target, Walmart and Costco, all of which announced plans last year to raise their minimum wage. REALTORS® who want to impact affordability in their market should spend 2019 urging local companies to follow suit, according to Mayo.

"I'm trying to get my colleagues to start talking to their networks about the benefit of growing wages," she says. "We need to let people know how paying workers more benefits the whole community."

4. Elections impact policies affecting the housing market

The mid-term elections may be over, but their effects remain to be seen as new local, state and federal lawmakers prepare to execute their agendas.

"Any time there's an election, there are going to be changes in the housing market," Dargan says.

Among the many issues that could impact REALTORS® this year are:

Trade: NAR attributes rising home prices in part to the Trump Administration's tariffs on Canadian lumber, which have driven up the cost of construction materials.

Deregulation: The Trump Administration in 2018 significantly decreased the authorities of the Consumer Financial Protection Bureau, which regulates the financial services sector. Efforts to continue or reverse deregulation could impact lenders and, therefore, buyers.

Tax Reform: One of the most significant federal laws passed by the last Congress was the Tax Cuts and Jobs Act (TCJA), which placed new restrictions on the itemized deduction of property taxes. Further tax legislation could have similar consequences for homeowners, buyers and/or sellers.

Immigration: Foreign investment in U.S. real estate is falling, according to NAR, which attributes the decline not only to low inventory and high home prices, but also federal immigration policy; policies that curtail immigration, it reports, also curtail population growth and labor, which in turn impacts home prices and construction.

5 High-tech tools facilitate marketing, but high-touch drives client relationships

Technology will continue to make waves this year as it has every year in recent memory, CRSs predict.

A major goal for Tapscott in 2019, for example, is investing more in digital marketing. "I have to continue to develop my online presence; that's where I'm going to spend my dollars moving forward," she says, adding that she's especially bullish on video marketing. "Potential buyers and sellers are constantly moving, and they travel with their phones and laptops. The one thing that attracts their attention when they have downtime is video."

Virtual reality (VR) and augmented reality (AR) are likely to make big impacts on real estate in 2019. So is artificial intelligence (AI), according to Mayo, who cites as an example companies like REX Real Estate, which uses AI and machine learning to match sellers with buyers based on buyers' internet search history.

"Artificial intelligence would be a big asset for small brokers like me because with predictive analytics, your information goes directly to [likely buyers], which could help you cut your advertising costs," Mayo says.

Technology's growing influence has persuaded Pautsch to double down on traditional business practices in 2019: in a high-tech world, he predicts, buyers and sellers will crave high-touch brokers. "If I'm concerned about anything, it's that technology is going to take the place of customer service and personal relationships," he says. "I think 2019 is going to be a great year for my business, and that's because we are very relationship-oriented."

Of course, without a crystal ball it's impossible to say what 2019 has in store for REALTORS®. One thing is certain, however:
It's going to be a wild ride.

Matt Alderton is a freelance writer in the Chicago area.

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