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## Shadow housing stock looms in mired market

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Used to be, when someone moved out of a house, Rob McGregor saw a "for sale" sign go up.

The mail carrier has seen something different over the past couple of years. Houses along his route near Beavercreek Park on Des Moines' west side go dark and stay that way. No sign, no Realtor's phone number, just an empty house.

"I do see that more than I used to," McGregor said.

The new normal is stagnant home prices, and one reason is the hundreds of thousands of homes either in foreclosure or repossessed by banks — a giant shadow inventory of homes waiting to go on the market.

Already, more houses are for sale in America than people want to buy, and though sales of existing homes rose in August, the roughly 1.6 million homes in the nation's shadow inventory promise to drag down home prices for years, experts say. In Iowa, 10,856 homes were in foreclosure or already owned by a bank, according to a July report from RealtyTrac, a national website that tracks such properties. Those homes will take nearly three years to sell, RealtyTrac estimates. While more than 6,000 of them are already owned by banks, it's not clear how many are on the market.

"There's just a layer of gloom coming beyond what's there now," said Dan Vessely, president of the Iowa Mortgage Bankers Corp. "It's going to take a longer length of time for houses to gain significant value."

Economists believe the housing crisis remains at the core of America's economic problems. When home prices are dropping, consumers lose wealth, their confidence is shaken and they spend less money. When someone's mortgage is underwater, they can't move to find a new job.

The nation has lost \$6.7 trillion in housing wealth since 2006, said Scott Andersen, an economist for Wells Fargo in Minneapolis, and the housing industry's capacity to generate wealth has evaporated.

At the end of 2005, residential construction contributed 6.2 percent of U.S. gross domestic product, he said. Now, it's contributing only 2.4 percent, and zero to economic growth.

#### NEIGHBOR: 'WHO'S GOING TO BUY THAT?'

Jayne Seelhammer lives on Leado Avenue in Des Moines, along McGregor's mail route. She watched the family next door leave their home as HSBC Bank foreclosed on them in May 2010.

But it was more than a year before a "for sale" sign went up in the yard.

"It took them a long time to get it on the market," Seelhammer said.

One reason for that: HSBC didn't get a title to the home until April 2011.

Someone could eventually buy the house for a song. Foreclosures have sold for a small fraction of their assessed value on Seelhammer's block during the past two years. One house assessed at \$134,900 sold for \$45,250 in February. Another assessed at \$75,600 sold for \$40,000 in September 2009.

Seelhammer is not sure when the house next to hers will sell, or at what price, but the roof is in bad shape and the gutter is hanging loose above a backyard in need of attention.

For now, a "for sale" sign lies on the ground near the front door.

"It affects the value of my house, and you hate to see that happen," Seelhammer said. "Who's going to buy that? Is it going to be somebody who will take care of it?"

Standard & Poor's estimates the national shadow inventory of homes is worth \$405 billion. That's down from \$433 billion in June, but S&P still estimates the inventory will take four years to clear.

"We believe prices are likely to fall further as servicers clear the shadow inventory backlog and the properties under the distressed loans crowd the already weak housing market," wrote Diane Westerback, a managing director for S&P.

It's a paradox for banks. If they clear the shadow inventory slowly, home prices will be depressed for an extended period. If it happens quickly, the glut will overwhelm the market and quickly drive down prices.

But Jason Menke, a spokesman for West Des Moines-based Wells Fargo Home Mortgage, the No. 1 home lender nationally and in Iowa, said: "We want to make sure that we are doing what we can to turn those houses into homes as quickly as possible."

Two factors delay the process, Menke said. First, foreclosed homes often have to be cleaned up and repaired before they go to market. Second, the foreclosure process is slower in some states than in others. Iowa's takes about six months — slightly longer than the national average.

Wells Fargo wouldn't provide the number of properties it is foreclosing on, or the number of bank-owned homes on its books, but Menke said the company services more than two-thirds of its loan portfolio on behalf of Fannie Mae, Freddie Mac, U.S. Department of Housing and Urban Development and other investors.

He said the company's foreclosure and delinquency rates are 2.35 percent and 7.44 percent, well below the industry averages of 3.61 percent and 10.85 percent.

## UNCERTAINTY SEEN IN METRO MARKET

Stagnant prices for the foreseeable future might lead consumers to believe it's a buyer's market, but because of the stability of Des Moines home prices, the uncertainty of the economy and the unattractiveness of foreclosed homes, it's not easy to come out ahead in central Iowa.

Buyers should be cautious, said Tyler Osby, a branch manager for Fairway Independent Mortgage Corp. in Urbandale, especially if they aren't sure how long they want to stay in a home.

"Now is not the time to buy a house and move in two years," he said. "You're not going to make any money, and you're probably going to lose some."

The sale price in Des Moines fell 18 percent from 2006 to 2010, while the percentage of sales that resulted from foreclosure jumped from 10 percent to 25 percent, the city said in an application for federal funding to help rehabilitate and bring foreclosed and abandoned homes back on the market.

Housing surveys are plentiful, and it can be difficult to make sense of them, but some analysis indicates homes in many parts of the country remain overvalued, giving consumers another reason to believe prices will drop further.

A Zillow.com survey conducted for the Wall Street Journal concluded that home prices are as much as 49 percent overvalued in cities like Virginia Beach, Va. Des Moines homes are 14 percent overvalued, the survey showed.

Kurt Schade, president of the Iowa Association of Realtors, said any time shadow inventory comes onto the market it "could have a potential impact." So far, the damage hasn't been significant, he said. "It's not enough of the market share."

Schade estimates Iowa's distressed sales — foreclosures and short sales — are around 10 percent of total sales. Nationally, distressed sales are about 30 percent of the total.

"There are good deals out there," said Schade. "But I think people have the mentality that they'll buy a house for 30 percent less than the list price, and that's unrealistic. We're not in that kind of market."

Schade and others say Iowa's housing market will continue to struggle with shadow inventory, given the large percentage of homeowners who are upside down on their mortgages, or owe more on homes than they're worth.

Nearly 13 percent of the Des Moines metro area's homeowners are upside down on their mortgage, based on estimates from CoreLogic, a California-based analytics company. In the second quarter, 9 percent of Iowa's 370,148 mortgages were underwater. Nationally, the rate was 22.5 percent.

Some homeowners go into foreclosure; many others are stuck — in the same house and the same job.

"For three, four, maybe five years, most buyers were buying homes with no down payment," said Schade. "And if their home value went down, they have no equity. If they have no equity, they have no way to buy the next home. That's their down payment.

"People discover they just can't move," he said.

## THE CHALLENGE OF SELLING NOW

Many foreclosed homes are in disrepair, said Vessely, and banks are stuck with several unpleasant options. They could try to sell a home that's unattractive to buyers, or try to rent it. Foreclosed properties are taking longer to sell, according to RealtyTrac, up from a national average of 164 days in June 2010 to 178 days a year later.

The Neighborhood Finance Corp., which makes loans to homebuyers in some Des Moines neighborhoods, is trying to sell three foreclosed homes that have been renovated. Another 10 homes are in foreclosure and will have to be sold eventually.

"In some of them, the borrowers have moved out, and some of them have not moved out," said Holly Olson, the organization's director.

Olson said the group checks on homes, changes the locks and winterizes homes so pipes won't burst in the cold months.

Jack Daugherty has been trying to sell a two-story home near Union Park, on Des Moines' east side, for three months.

The house is listed at \$150,000, but he believes the reason it hasn't sold isn't related to price or location. He thinks it's because buyers can't get financing, or they can't sell the home they live in now.

"Part of the problem is people are anxious about what's going to happen in the future," he said.

"Really, it's nobody's market," Daugherty said. "I don't think anybody's winning in this market."