

Housing Market Shows No Signs of Escaping Doldrums

REAL ESTATE: Lending Climate and Foreclosures Stall Residential Progress

By **MIKE ALLEN**

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San Diego's housing market remained in the doldrums last year and shows little sign of staging a robust comeback this year, say local realtors and housing experts.

"We definitely have a year left before all this gets sorted out," says David Tal, president of HomeReach Real Estate in downtown San Diego.

While mortgage interest rates declined last year to historic lows below 4 percent and prices made houses affordable to an ever greater number of county residents, there were other factors that have impeded any real recovery, Tal said.

Banks are holding record levels of foreclosed properties, and borrowers, even those who certainly have the means, aren't getting the loans they need to buy, he said.

For the most part, San Diego's market has stabilized and there's palpable demand, Tal said. "Overall, people see this market as affordable and reasonable," he said.

Combined with low interest rates, it's a prescription for a surge in buying but many remain on the sidelines, waiting for either prices to decline some more or for an improvement in their own individual situations, analysts said.

Buyers on the Sidelines

"There are a lot of people who would like to sell or trade up but they see the weak housing market, and they're deciding to wait," said Michael Lea, director for The Corky McMillin Center for Real Estate at San Diego State University.

Then there are those folks with zero or negative equity in their homes and are stuck, said Lea. Between a third to 40 percent of all homes in the county are in this category, Lea says.

According to MDA DataQuick, a real estate research firm based in San Diego, distressed property sales — including both foreclosures and short sales (where the bank is accepting a price below what is owed on the mortgage) — made up 51 percent of all resales in Southern California in November, the most recent month's data available. That's down from 53 percent in the prior year's November.

"Nearly one of three homes resold last month was a foreclosure while roughly one in five was short sale," the DataQuick report said.

While the banks and the government have responded with loan modification programs to help those who are in default, those programs have largely been ineffective, Lea said.

Default Rescue Plan

Last month, Bank of America launched a plan aimed at keeping defaulted borrowers in their homes by foreclosing on the home but renting it back, giving the former owners the chance to repurchase the house if their financial health gets better.

Such a program would certainly reduce the inventory of distressed properties but much depends on whether the biggest owners of the nation's mortgages, Fannie Mae and Freddie Mac, approve this arrangement, Lea says.

"I expect to see more resolutions this year, one way or another, either through short sales or by foreclosures," he said.

Because of the abundance in distressed sales and difficulty in finding financing, median housing prices in San Diego fell by 6 percent through November to \$315,000, according to DataQuick.

The overall median for all Southern California houses, including Los Angeles and Inland Empire areas, for November was \$275,000, down 4 percent from November 2010.

The lack of easy financing that helped propel the housing bubble is benefiting cash-rich real estate investors who are either flipping properties or renting them, say industry observers.

"Four years ago, cash investors made up 25 to 30 percent of my business. Today it's about 50 percent," Tal said.

Expect foreclosures to increase through this year, as banks make decisions on thousands of properties that remain a drag on their books, according to a September report from Beacon Economics, a Los Angeles-based economic research firm.

"For now, investors and buyers with cash continue to hold the power when competing with more traditional buyers, not only for REOs (foreclosed real estate) and short sales, but also for homes of all types and in all areas," said the Beacon report.

Rick Ungar, a broker with Casa Bella Realty Services in Encinitas, said he's seeing properties getting multiple offers, including one which got seven, including four cash offers.

He called 2011 a "bottoming year" and expects more of the same in 2012. "Financing is still difficult," he said. "You've got to be squeaky clean, and the banks are asking for more documentation."

Short sellers and the buyers who want the distressed houses are doing deals more frequently, and if the parties have all their arrangements worked out, deals are getting done quicker, he said.

But this year probably won't be impressive, Ungar said.

"We're still going to be bouncing along the bottom this year," he said. "Until we get the financing straightened out for middle and higher price ranges, this market won't have any real momentum."