NODs spike 52.5% in SD in February from January

By SAMANTHA HENRY, The Daily Transcript
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San Diego’s notices of default spiked more than 50 percent from January to February, and that may be indicative of future trends, according to local real estate professionals.

“I expect notices of default and trustee sales to continue to decline as property values continue to increase,” said Mark Goldman, real estate professor at San Diego State University, senior loan officer with C2 Financial Corp. and principal at The London Group. “I don’t expect it to continue upward, especially not by those numbers.”

Notices of default (NODs) -- which initiate the foreclosure process by registering that a borrower is in arrears of payment -- increased 52.5 percent from January to February, and fell 49.8 percent from February 2012 to February 2013.

However, Sean Mayer, principal at Legacy Real Estate Ventures LLC, said he believes NODs will increase throughout 2013 as “the U.S. economy, as a whole, is not healed by any means.”

“Even though our equity markets reflect a robust increase since the doldrums of 2008, the majority of the rally has been fueled by low-interest rate borrowing from larger institutional firms,” Mayer said in an email. “The concept of the ‘Bernanke Put’ reflects the mantra that QE will continue and thus equities will continue to advance. The low cost of capital has an adverse effect for some firms as it has forced them to lever up their risk-profile in the current low interest rate environment.”

Trustee deeds -- the final step in the foreclosure process, transferring ownership from the delinquent borrower back to the lender or to a third party -- were filed on 332 properties in February, 31.4 percent less than in December and 56.7 percent less than February 2012, according to the San Diego County Assessor’s Office.

Lenders issued NODs to 755 borrowers in February, up from 495 in January and down from 1,505 in February 2012.

Mayer said NODs spiked due to the seasonality of real estate.

“January would be a seasonally slow month as banks have already reconciled the majority of their 2012 assets, which attributes to the lower count of NODs in January. Once 2013 started, banks begin a more normalized process, which reflects the increase in February numbers,” Mayer said.

Marc Abouaf, a realtor with Keller Williams, said he expects trustee deeds to continue to decrease because home values are increasing.

“This should help home values come up to where some home owners can possibly sell for what they owe unless they are still grossly undervalued,” Abouaf said in an email.

Goldman said he expects NODs to continue a downward trend as a result of improved employment and the restoration of equity in people’s homes.

“There are more people working and more income. Those are all things that fight foreclosure,” Goldman said.

NODs are a better indicator of the market compared to trustee deeds, Goldman said. The timing of foreclosures could be unrelated to the market, he said, with banks pursing trustee sales to complete a quarter or calendar year, or because of legislative intervention. But NODs are filed 90 days after default, without other factors affecting that.

“I expect the trend for foreclosures to continue to tail off. I think we’ve seen the bottom of the market,” Goldman said. “I’m anticipating the rest of 2013 to see the number of foreclosures continue to decline – even though NODs spiked – for the year, we’ll see less.”
Trustee deeds may be at a low level due to legislation passed regarding robo-signing, Mayer said.

“I believe the banks have settled the majority of detrimental issues and will start proceeding with a more normalized foreclosure process,” Mayer said in an email. “The quantity of foreclosures will not be anywhere near the magnitude of 2008-2009, as banks have focused on the short sale process to keep borrowers in the homes and likewise decrease the management intensity and overhead of their REO departments.”

The increase in property values will help drive the number of NODs lower throughout 2013, in addition to the improvement in employment, according to Goldman.

San Diego has experienced strong demand and limited supply, Goldman said.

“We’re certainly not overbuilt. We’ve got a housing shortage here and I think that makes our real estate more appealing,” Goldman said. “We’ve got more families than houses. That creates a shortage, which creates more demand and does support prices.”

Mayer agreed that the lack of supply is still present in the housing market.

“I think the most important revelation revealed in 2012 was the lack of land located in core markets for builders and private equity firms to begin the entitlement process,” Mayer said. “Prior to 2012, land was not a popular asset class for the majority of builders due to the supply and availability of ‘blue-top lots.’ In 2012, we received numerous joint venture proposals with builders and private equity firms on our 1,800 acre holding (Potrero Valley Ranch LLC) which displayed the sudden sense of urgency that both public builders and private equity firms are feeling with the recent uptick in the housing market.”

Abouaf said he’s also noticed an increase in demand on entry level purchases as well as move-up buyers beginning to sell and either buy up or down as they become empty nesters.