

UTAH'S Economy

A monthly report produced for COMMERCE REAL ESTATE SOLUTIONS by Jim Wood, Bureau of Economic and Business Research University of Utah

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RESIDENTIAL FORECLOSURES EBBING

Since 2009 foreclosed homes have accounted for 10 to 20 percent of single-family sales in most cities. Magna is at the upper end with foreclosed properties representing 21 percent of homes sales while Centerville is near the bottom with only 8 percent, *Table 1*.

Table 1 REO Sales as Percent of Total Single-Family Home Sales – Selected Cities (2009 through March 2012)

	REO Home Sales	Total Home Sales	REO as % of Total
Magna	193	910	21.2%
Tooele City	234	1,188	19.7%
Alpine	48	254	18.9%
West Valley	453	2,588	17.5%
Eagle Mountain	209	1,200	17.4%
Kearns	75	477	15.7%
Lehi	316	2,021	15.6%
Ogden	438	2,803	15.6%
Saratoga Springs	169	1,092	15.5%
Provo	227	1,467	15.5%
Draper	245	1,637	15.0%
West Jordan	483	3,327	14.5%
Orem	207	1,560	13.3%
Salt Lake City	1,104	8,673	12.7%
South Jordan	210	1,964	10.7%
Fruit Heights	12	104	11.7%
Sandy	319	2,992	10.7%
Syracuse	97	934	10.4%
Roy	139	1,356	10.3%
Taylorsville	92	902	10.2%
Bountiful	90	960	9.4%
Centerville	22	274	8.0%

Source: Wasatch Front Regional Multiple Listing Service.

Even high income housing markets in small communities, like Alpine and Fruit Heights have had their share of foreclosed sales. In both these communities the share of foreclosed properties was in double digits.

Of course when foreclosed properties are measured as a share of the city's total housing stock the share is much smaller, generally between 1 and 3 percent of the inventory. For example, the Wasatch Front Regional Multiple Listing Services (WFRMLS) reports that 1,104 foreclosed homes have been sold in Salt Lake City, which is 3 percent of the owner occupied inventory of 36,000 units. Measuring foreclosures against total inventory provides another context but in no way diminishes the harmful effects of foreclosures on local housing prices, neighborhoods and individual families.

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The good news is that several real estate indicators point to a reduced threat from foreclosures:

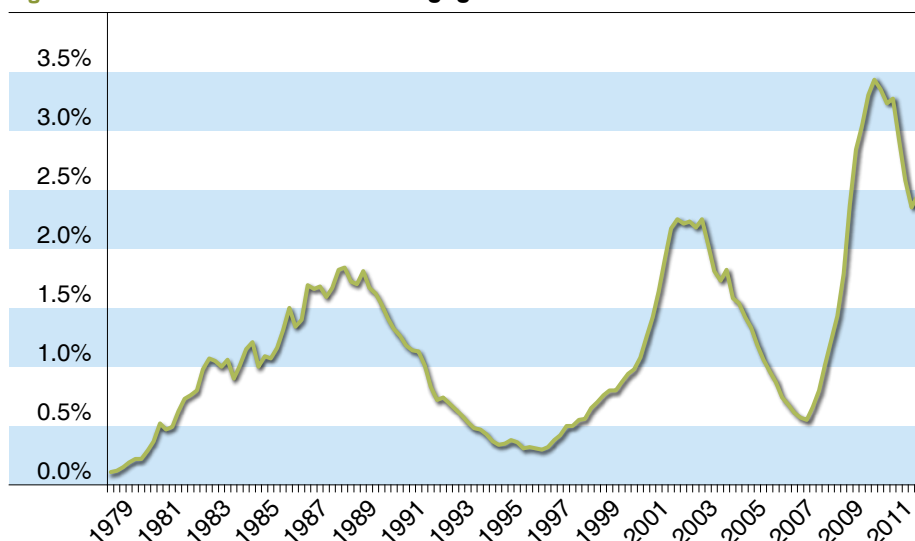
- Since 2008 the WFRMLS has listed 14,300 REO/foreclosed residential units on the MLS. Through April of this year 12,400 of these units have been sold. Foreclosed properties have a high absorption rate. (REO/foreclosed property refers to foreclosed real estate owned by a financial institution.)
- The average number of new listings by month of REO/foreclosed properties has dropped by 35 percent over the past year for the combined area of Davis, Salt Lake, Tooele, Utah and Weber Counties.
- Currently there are only 170 active listings of foreclosed single-family homes in the five county area. These listings account for only 2 percent of the 8,768 homes listed in Davis, Salt Lake, Tooele, Utah and Weber Counties.
- Short sales have also been a problem for many communities, pushing down housing prices. At first blush the issue of short sales appears unchanged with between 350-400 new short sale listings a month in the five county area. However, a high percentage of these units are also being absorbed. Of the 1,841 short sale properties currently listed 1,450 have an offer under review by a third party. Thus, nearly 80 percent of short sale properties have offers and in many cases there are multiple back-up offers.
- Strong anecdotal information reports home prices stabilizing and even improving, an important indicator of a subsiding threat from foreclosures and short sales.
- The threat of a “mortgage reset tsunami” in 2012 will likely be much reduced for two reasons:

(1) many ARM borrowers actually have “above” subprime credit and should be able to manage the reset and (2) the historically low interest rates have meant in some cases lower rates for borrowers after the reset, while for others only a small increase in interest rates or none at all.

Getting a precise handle on the foreclosure situation is impossible, even a good approximation is difficult. Data limitations and in some cases, conflicting data, make for a murky picture. There are two big unknowns: (1) how many foreclosed properties remain on banks’ balance sheets, yet to be released on the market and (2) how many of the properties in “the process of foreclosure,” as reported by the Mortgage Bankers Association, actually end up as REO/foreclosed properties. No one knows due to lack of a central reporting entity or agency. But despite these unknowns the indicators above suggest that the threat of foreclosure is probably ebbing.

In the fourth quarter of 2011 the Mortgage Banker’s Association reported that the percent of mortgages in the “foreclosure process” in Utah had dropped to 2.45 percent of all mortgage loans, the lowest rate in nearly three years, *Figure 1*. With 430,000 mortgages statewide that meant 10,500 mortgages were in the foreclosure process. Some of these foreclosed properties have been sold in 2012. The WFRMLS reports that 1,500 REO/foreclosed properties

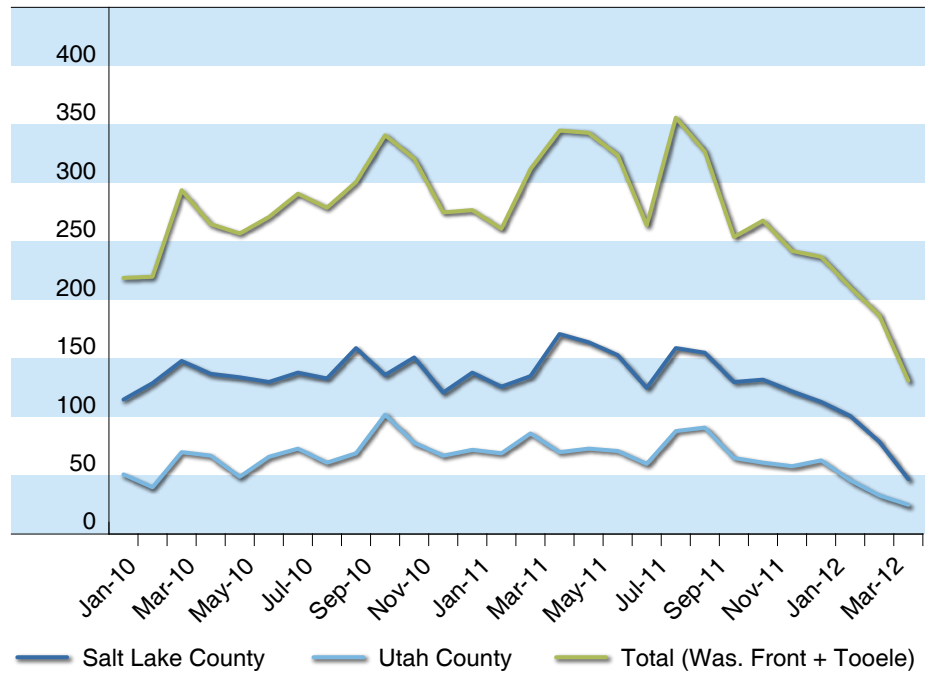
Figure 1 Percent of Residential Mortgage Loans in Foreclosure in Utah



were sold from January through April, very likely pushing down the percentage of residential properties in the foreclosure process. The number of listings of foreclosed properties has declined significantly in recent months, hopefully an indicator of a shrinking inventory of bank held properties, *Figure 2*.

The share of mortgages in the foreclosure process is probably now around 2 percent of mortgage loans, about double the long-term average rate of 1 percent. The extra 1 percent equates to about 4,500 foreclosure filings above the long-term average. Much of the data suggest the absorption rate of foreclosed properties is quite robust, which should significantly reduce the foreclosed inventory during the remainder of 2012 making 2013 a better year for home prices and homebuilding.

Figure 2 REO Single-family Homes Listed for Sale by Month (Total = Wasatch Front Counties plus Tooele County)



Source: Wasatch Front Regional Multiple Listing Service.