



FORECLOSURES AND UTAH'S HOME BUILDING RECOVERY

Over the next 18 months the strength of the rebound in Utah's home building industry will be significantly affected by the extent of home foreclosures. Widespread foreclosures have been devastating to the home building industries in California, Arizona, Nevada and Florida and pushed back any hopes of recovery for at least another year.

In the fourth quarter of 2008 the Mortgage Bankers Association reported that these four states accounted for 44 percent of all foreclosures in the U.S. The 660,000 foreclosures in these four states have dragged down housing prices and new home construction nationally. The number of foreclosed homes, at the levels experienced by these states, presents formidable competition for local home builders. This point is best illustrated by a comparison of foreclosed homes to new home construction. In 2008 Florida building permits for new homes totaled 39,300, while the number of foreclosed homes totaled 320,315, a ratio of 8:1 foreclosed homes to every new home. In California the ratio was 7.7:1, in Nevada 5.2:1 and in Arizona 3.2:1. In Utah the ratio was 1.4:1.

In the previous housing recession in both California and Florida the situation was reversed—new homes significantly outnumbered foreclosures. In the fourth quarter of 2001 the number of new homes built totaled 106,000 and 117,000 respectively, while the number of foreclosure in both states was about 28,000. New homes outnumbered foreclosures by a ratio of about 4:1.

Nearly nine percent of all mortgages in Florida are in foreclosure, by far the worst of any state, followed by Nevada, Arizona and California, all with foreclosure rates above four percent, *Table 1.*

Table 1
States Ranked by Percent of Mortgages
in Foreclosure Process
(Fourth Quarter - 2008)

Rank	State	% of Mortgage Loan Service	Number of Loans in Foreclosure
1	Florida	8.95%	320,315
2	Nevada	6.58%	37,295
3	Arizona	4.64%	56,190
4	California	4.19%	246,917
5	Ohio	4.09%	61,762
6	Illinois	3.87%	68,433
7	Indiana	3.76%	32,361
8	Michigan	3.70%	54,651
9	New Jersey	3.58%	45,656
10	Maine	3.49%	4,971
35	Utah	1.79%	7,891
	US	3.30%	1,498,074

Source: Mortgage Bankers Association.

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Table 2
Mortgages in Foreclosure in Utah

	Percent	Number	Numeric Increase
2007			
1st qtr.	0.57%	2,322	
2nd qtr.	0.55%	2,368	46
3rd. qtr.	0.66%	2,796	428
4th qtr.	0.8%	3,557	761
Annual 2008	0.65%	2,760	---
2008			
1st qtr.	1.02%	4,402	845
2nd qtr.	1.23%	5,347	944
3rd. qtr.	1.43%	6,298	952
4th qtr.	1.79%	7,891	1,593
Annual	1.36%	5,985	---

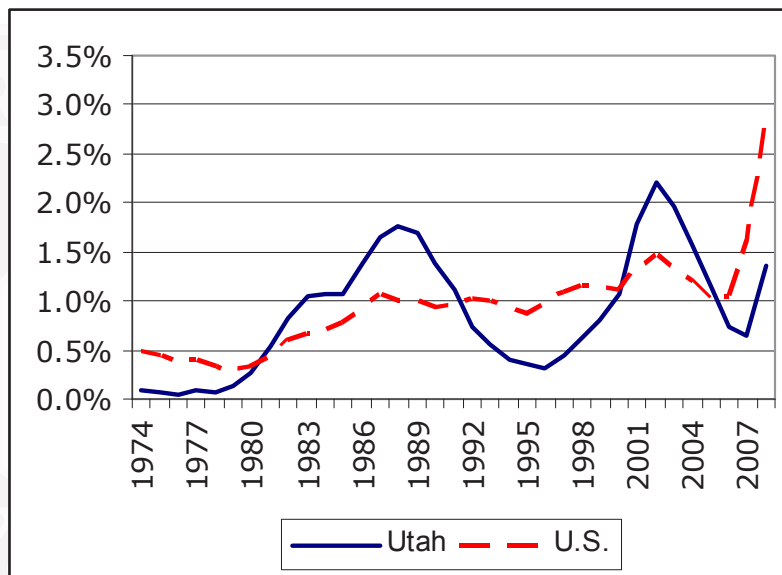
Source: Mortgage Bankers Association.

A second tier of large industrial states—Ohio, Illinois, Indiana, Michigan and New Jersey—have foreclosure rates approaching four percent. The extraordinarily high number of foreclosed homes in the current housing slump is unprecedented and will prolong the downturn and suppress the housing rebound nationally.

Fortunately, in Utah the magnitude of the foreclosure problem is not nearly as severe as the hardest hit states; Utah ranks 35th among all states, with a fourth quarter foreclosure rate of 1.79 percent. The most recent Mortgage Bankers Association *National Delinquency Survey* reports that of the 440,000 mortgages surveyed in Utah in the fourth quarter of 2008, 7,891 were in the foreclosure process. Utah’s foreclosure filings are accelerating rapidly, rising from 6,298 in the third quarter of 2008 to 7,891 in the fourth quarter, an increase of 1,593 foreclosures, *Table 2*.

Although Utah’s foreclosure rate is currently about half the national rate, it has historically been relatively volatile, often rising well above the national rate, *Figure 1*. During the past two Utah recessions, 1988 and 2002, Utah’s foreclosure rate exceeded the national rate by about 75 basis points, or three-quarters of one percent. Nationally, over the next 12 months, the foreclosure rate will likely approach four percent, driven by the rising rates of unemployment. As in the past, Utah’s foreclosure rate will likely follow the national trend and rise to at least three percent by the fourth quarter of 2009. But Utah is unlikely to exceed the national rate this time around. The national rate has been pushed to an extraordinarily high level due to the collapse of housing prices and high levels of unemployment in a few states.

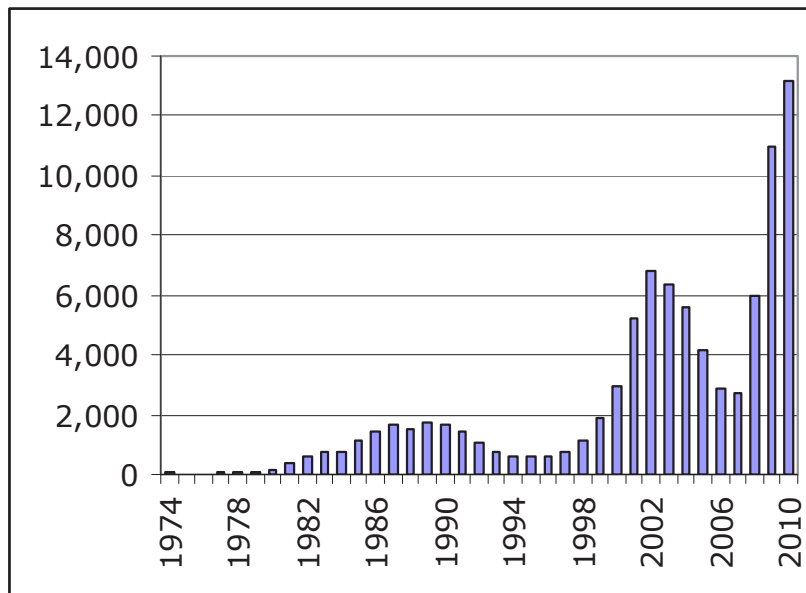
Figure 1
Percent of Mortgages in Foreclosure Proceedings
(Annual Rate)



Source: Mortgage Bankers Association.

Nevertheless, there is little evidence to suggest that Utah won't break the foreclosure record of 2.2 percent set in 2002. Job losses are mounting in the state and this trend is not expected to turn around until 2010. If Utah should reach a foreclosure rate of 3 percent, which is not unlikely, 13,000 homes would be in the foreclosure process, nearly double the previous high of 6,800 homes in 2002, *Figure 2*.

Figure 2
Number of Foreclosure Filings in Utah



Source: Mortgage Bankers Association.

It is important to note that not all homes with foreclosure filings end-up “dumped” back on the market. Many lenders and borrowers arrange a “work out”, either through a short sale or loan modification. In these cases, which may represent as many as 50 percent of foreclosure filings, the property does not become part of the unoccupied housing inventory competing with home builders new unsold inventory. Nevertheless, even if only 50 percent of the likely 13,000 homes in foreclosure in 2010 end-up on the market as unoccupied, price discounted homes, these 6,500 homes would represent a substantial competitive force for struggling home builders. In an environment where new home building has fallen to such low levels, the increasing number of foreclosed properties will prolong Utah’s housing slump and assuredly weaken the recovery.