

UTAH'S Economy

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

ISSUE 78 MAY 2011

To receive this newsletter by e-mail,
please contact Luane Cutler at
801-303-5445 or lcutler@comre.com

FORECLOSURE CONFUSION

Has the American Dream of homeownership become the American Nightmare? A recent *Salt Lake Tribune* article described the nightmare of foreclosure and homeownership¹. The article correctly noted the Great Recession has resulted in a record number of foreclosure filings. The interpretation of foreclosure data however requires some caution to avoid misleading conclusions.

First regarding data sources; there are two principal sources of foreclosure data, RealtyTrac and the Mortgage Bankers Association (MBA). RealtyTrac was founded in 1996. The company's website provides an online marketplace of foreclosure properties that receives some three million unique visitors or "hits" per month. Generating website visitors is a top priority for RealtyTrac.

The Mortgage Bankers Association is the national association representing the real estate finance industry. The association has over 2,400 member institutions (mortgage brokers, commercial banks, thrifts) and was founded in 1914. The MBA has been publishing data on foreclosure filings and mortgage delinquencies for some 40 years. These two sources, both of which are cited in the *Tribune* article, publish foreclosure data regularly; RealtyTrac monthly and the MBA quarterly.

The most recent data from RealtyTrac ranks Utah fourth in the country in the rate of foreclosure filings with "one in every 322 households in Utah receiving a foreclosure notice" in April. That amounts to 2,725

foreclosure notices statewide in April. This is an extraordinarily high number, much higher than a local source (Newreach) of foreclosure data as well as results of MBA's survey. For the first quarter of 2011 the MBA reported foreclosure notices running at about 1,700 per month statewide. RealtyTrac's foreclosure estimates are typically very high and have been challenged in some states.

One of the advantages of the MBA data is their tally of the total inventory of loans in foreclosure. In other words, a total of the actual number of foreclosure properties not just the number of new notices in a specific month. The most recent MBA data show that the inventory of foreclosure filings totaled 12,659 in the first quarter of 2011. This amounts to 2.91 percent of the 435,000 mortgage loans in MBA's Utah database. By this measure Utah ranks 33rd among all states in the percent of mortgage loans in foreclosure. But perhaps most significant is the recent decline in

This report is commissioned by
Commerce Real Estate Solutions
info@comre.com • 801-322-2000

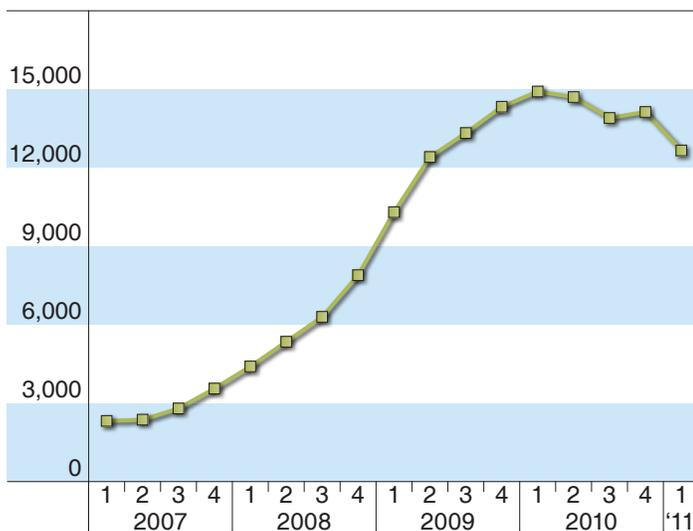


CUSHMAN & WAKEFIELD

COMMERCE
REAL ESTATE SOLUTIONS • COMRE.COM
INDEPENDENTLY OWNED AND OPERATED

1 "The American Nightmare", *Salt Lake Tribune* June 11, 2011.

Figure 1 Inventory of Foreclosure Filings in Utah at End of First Quarter



Source: Mortgage Bankers Association.

the number of foreclosure properties in Utah reported by the MBA. Compared to the fourth quarter of 2010 the number of foreclosure properties has declined by 1,500, *Figure 1*. When compared to the first quarter of 2010 the number is down by 2,250². Some of the decline may be due to foreclosure processing delays but it's important to note that the first quarter decline in Utah was three times greater than at the national level.

Second regarding interpretation; it's important to remember not all homeowners have mortgage loans. The Census Bureau reports in 2009 that over 160,000 Utah homeowners—1 in 4—has no mortgage loan. Including the homeowners without a mortgage in the foreclosure equation changes the conclusions. Rather than 1 in 10 homeowners, as reported by the *Tribune* “struggling to make house payments or already losing their property” that number drops closer to 1 in 16. Furthermore, a significant share of these struggling households—25 percent—are those only 30 days past due. Many in this group often recoup with a late payment. This is shown by the significant drop—nearly 60 percent—between the percent of homeowners 30 days late versus 60 days late. “Struggling” with a

² It should be noted that there were also first quarter declines in both the number of mortgage loans delinquent and the number seriously delinquent mortgage loans in Utah.

house payment is too broad a term to infer eventual foreclosure.

Generally the severely threatened homeowner is defined as “seriously delinquent,” which includes those homeowners 90 days or more delinquent plus those in the foreclosure process. The percent of mortgage loans seriously delinquent in Utah is 5.95 percent of all loans, which totals 25,900 homeowners; Utah ranks 27th among all states in the percent of mortgage loans seriously delinquent. Using seriously delinquent as a measure of those homeowners severely threatened with losing their homes—remembering to divide by all homeowners including those without a mortgage—yields a rate of 1 in 24 homeowners severely threatened with the loss of their home. While not a particularly sanguine estimate, but much less dire than the 1 in 10.

There is no mistaking the consequences of foreclosures on Utah's homebuilding and real estate industry. Short sales and bank REO (real estate owned) sales are dragging down all home prices. Of the 3,650 existing homes sold in Davis, Salt Lake, Utah and Weber Counties in the first quarter of 2011, 40 percent were either short sales or REO sales. These sales represent distressed properties with heavily discounted prices.

Homebuilders are having a very difficult time competing with these low-priced homes consequently new home construction continues to decline. Through April new home construction is 33 percent below the 2010 pace, *Table 1*. Existing home sales are also down but not nearly as much as new home construction. Existing home sales are down 13.5 percent through May and the median sales price has fallen 7.3 percent to \$179,000, *Table 2*.

It is fair to say that three to four percent of Utah homeowners are suffering through a financial nightmare, nevertheless the financial incentives of homeownership—mortgage interest deduction, property tax deduction, capital gains exclusion and some future equity—combined with other noneconomic advantages will continue to preserve and prolong the “American Dream” for most Utah households.

**Table 1 Residential Permits for Utah
(January through April)**

Year	Total Units	Single Family	Percent Chg. Total	Percent Chg. Single Family
2004	7,201	5,203	---	---
2005	8,583	6,243	19.2%	20.0%
2006	8,253	6,529	-3.8%	4.6%
2007	7,656	5,235	-7.2%	-19.8%
2008	3,605	1,912	-52.9%	-63.5%
2009	2,900	1,168	-19.6%	-38.9%
2010	3,276	2,254	13.0%	93.0%
2011	2,319	1,507	-29.2%	-33.1%

Source: Bureau of Economic and Business Research, University of Utah.

**Table 2 Existing Single Family Homes Sold and Median Sales Price for Wasatch Front Counties
(January through May)**

Year	Units Sold	Median Sales Price
2004	10,407	\$147,000
2005	12,367	\$159,000
2006	14,068	\$177,790
2007	13,343	\$215,000
2008	9,003	\$216,016
2009	7,482	\$210,000
2010	9,248	\$193,000
2011	7,995	\$179,000

Source: WRMLS.