

MONDAY, MAY 4, 2009

## **Orange County Housing Report: The Distressed Inventory is Dropping**

**The total number of distressed properties, foreclosures and short sales, dropped to its lowest level since December 27, 2007.** There are currently 3,724 distressed homes on the active market, 37% off of the peak of 5,950 established in August 2008. The number of active foreclosures has dropped from its November 2008 peak of 1,404 to 529, a 62% drop. It is not just the number of foreclosures that has been dropping; the number of short sales on the active market has dropped by 20% since February, from 4,009 to 3,195. This drop can be directly attributed to much stronger demand for homes priced below \$1 million, which accounts for 74% of the active inventory and 95% of demand. Homes above \$1 million account for 5% of demand, but 26% of the active inventory. Demand has been incredibly strong in the lower ranges because of two factors: 96% of all distressed properties are found below \$1 million; and, jumbo loans, loans above \$729,750, are much harder to obtain than conventional loans, loans below that level.

For Orange County, demand, the number of new pending sales over the prior month, increased by an additional 79, now totaling 3,632 and the current height of demand for 2009. Orange County demand has not been at this level since August of 2005, just prior to the beginning of the current cycle. Last year there were 1,092 fewer pending sales, totaling 2,540, 30% less. Two years ago demand was 1,769 fewer, totaling 1,863, 49% less. Three years ago demand was 26% less and totaled 2,701. The recent surge in demand seems to be abating, but this can be attributed to less inventory in the lower ranges. With an expected market time of 1.73 months, the \$250,000 to \$500,000 range has been incredibly hot and many buyers have written offer after offer with no success. The sales to list price ratio for homes within this range is 100%. So, those buyers looking to scoop up a deal by writing for less than the asking price are, on average, out of luck. The sales to list price ratio for foreclosures within that range is 101%.

The active listing inventory dropped 198 homes in the past two weeks to 10,363. The

inventory has not been at these levels since April 2006. At the start of the year the active inventory was at 11,842, 1,479 additional homes compared to today. Last year there were 15,437 homes on the market, 5,074 additional homes compared. Two years ago there were 15,519 homes on the market, 5,156 additional homes. Three years ago there were 11,956 homes on the market, 593 additional homes compared to today. The expected market time dropped from 2.97 months two weeks ago to 2.85 months today. The expected market time last year was at 6.08 months, two years ago it was at 8.33 months, and three years ago it was at 4.43 months. This is the lowest expected market time since October 2005. Total Orange County pending sales continues its surge, reaching record heights for this three and one-half year downturn, totaling 5,733, an 828 home increase over the past month. Last year at this time, total pending sales reached 3,514, 2,219 fewer than today. Two years ago it was at 2,824, 2,909 fewer. Total pending count is different than demand because demand tracks new pending sales over the past month. Total pending count takes into account all pending sales, including those that have been pending for longer than 30-days. The 5,733 tabulation indicates that there will be a surge in sales over the next couple of months.

**How should a buyer approach this market?** Most buyers have the *wrong* expectations in approaching the Orange County real estate market. Everybody is acutely aware of the current global recession caused by the financial crunch, so it is understandable that today's buyers want a deal when buying a home. However, buyers fail to consider two important aspects of the current real estate market: there is tremendous demand for lower priced homes and distressed properties; and, today's asking prices already reflect a major drop in value. Prices have reached much more affordable levels just as interest rates have dropped to historical lows, the end result, demand not seen prior to the current downturn. So, buyers need to take a litmus test of the market that they are interested in. Buyers can expect multiple offers and even above asking price sales prices for homes priced below \$500,000 and distressed homes. The market has heated up considerably for homes priced between \$500,000 and \$750,000 as well, with an expected market time of 2.49 months. The market is much stronger between \$750,000 and \$1 million too, with an expected market time of 4.95 months, considered a market in equilibrium. The incredibly hot demand has been underreported and most buyer have to learn the hard way before getting realistic, writing offers below

the asking price and losing out on a property or two. Another reality of the current marketplace is the number of hoops lenders will put you through in funding a loan. Buyers will not only put together the initial loan package; more often than not, the lender is going to request additional paperwork during the pending sale process. As of May 1st, the government imposed an additional hurdle which will change the appraisal process. This new process has a very high potential in delaying the close of a pending sale. It is my humble opinion that these additional hurdles are necessary, but should be postponed until the market has healed. It is easy for politicians to make headlines and change the way lending and appraising is processed in the midst of a downturn, but the real fixes need to come when the market is moving on all cylinders.

POSTED BY STEVEN THOMAS AT 4:00 PM