

# Real Estate Outlook 2012

The big question is always what is going to happen this year in real estate. Have we hit bottom? How long is this going to last? Is there any light at the end of the tunnel? To see what the future holds, we need to look at the past. This will give us some perspective on the immediate future.

## **SALES FOR 2011:**

In 2011, we set another new record for the 3<sup>rd</sup> lowest sales year by selling only 29,425 new and resale homes and condos. Here is the breakdown:

New Homes: 2,028 – sales down 5.6%  
Resale Condos: 8,460 – sales down 8.4%  
Resale Homes: 18,906 – sales down 5.7%

## **FORECLOSURES IN 2011:**

Of these 29,425 sales, foreclosures accounted for 7,219 of those sales. Although this was down from last year by 8.7%, we also had some moratorium on foreclosures due to improper filings, signings, and execution of default notices. Even then, 17,471 Notices of Default were filed by lenders on Orange County Properties. Today, 13,000 homes in Orange County are in foreclosure and the banks own 4,343 homes. As the year came to a close, 1 out of every 6 homes in the “OC” were “underwater” by an average of \$98,069!

## **BUYERS LOOKING FOR DEALS:**

It appears that even with record low interest rates, distressed homes will still dominate the market. Last year, 52% of all sales were buyers acquiring either foreclosed homes (32.5%) are purchasing properties that were “short sales” (20.0%). Downward pressure on housing prices will continue to keep buyers out of the market – even with record low interest rates. Here are some reasons:

1. Decline in 1<sup>st</sup> time homebuyers due to lack of jobs and high student loan debt.
2. Consumer confidence continues to remain low.
3. With the Fed keeping interest rates low, buyers lack motivation to jump at today’s rates.
4. Overly strict lending guidelines are preventing many buyers from purchasing.

Now add the political uncertainty with the elections, Obama Care, tax reform and a dysfunctional congress and one can see why buyers are hesitant to enter the housing market. In 2012, the sale of homes and condos will continue to remain on the low side.

## **ANALYSIS OF THE SALES:**

Townhome or condominium, here are some things you may need to consider:

1. Only 28.7% of all buyers purchase them.
2. 52.3% of sellers reduced their original asking price.
3. When you finally accepted an offer and sold your home, you had overpriced it by 8.6%.

If you were the seller of a home, here are some things you may want to consider:

1. Your resale home represented 64.3% of all buyers in the market place.
2. 50.4% of sellers reduced their original asking price.
3. The final accepted offer was 8.0% less than your asking price.

## **ANALYSIS OF PRICING:**

Under \$300,000, sales declined 28.1%.  
Sales from \$400,000 to \$500,000 declined 16.5%  
Sales from \$500,000 to \$600,000 declined 11.9%  
Sales over \$1,000,000 declined 8%.

## **ANALYSIS OF PURCHASES:**

FHA buyers accounted for 30.6% of all sales in 2011.  
Buyers paying ALL CASH accounted for 29% of all sales.  
Investors acquired 26.4% of all sales and they paid all cash in 53.5% of the deals.

## **THE INVESTOR:**

The investor is becoming a major player in today's real estate market. Individuals, groups and even hedge funds are investing in real estate. The current pricing of today's homes combined with the low interest rates, creates a positive cash flow environment. There are many reasons for this:

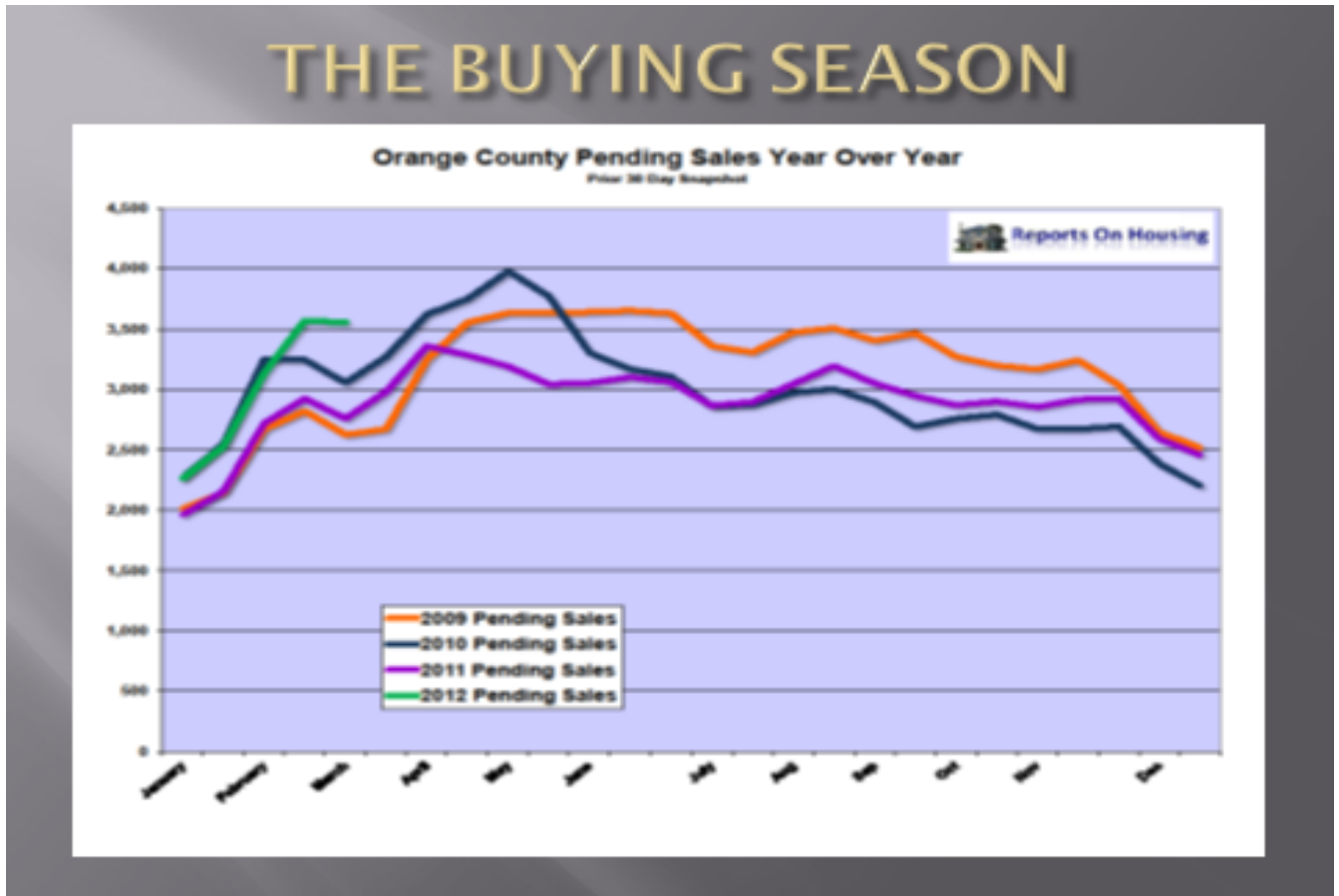
1. Homeownership is declining due to the economic downturn.
2. The continued weak economy is creating more renters.
3. There is increased renting from the wealthy.
4. Demographics are strong for the rental market. Demand is up for the first time in 5 years.
5. Loss of wealth from parents prevents them from helping their children purchase a home.
6. Student debt is keeping many buyers out of the housing market.
7. Tenants want more flexibility in their lifestyle and do not want to be chained to a home.
8. The "OC" employment picture is improving.
9. The rents increased approximately 5% last year in Orange County.

**SALES IN 2012 vs. 2011:**

	<u>Resale Homes</u>	<u>Resale Condos</u>	<u>New Homes</u>	<u>Foreclosures</u>
January	1,218 (- 2.5%)	574 (-1.4%)	80 (-18.4%)	503 (15.3%)
February	1,255 (+7.7%)	560 (-7.1%)	89 (-34.1%)	536 (-8.2)

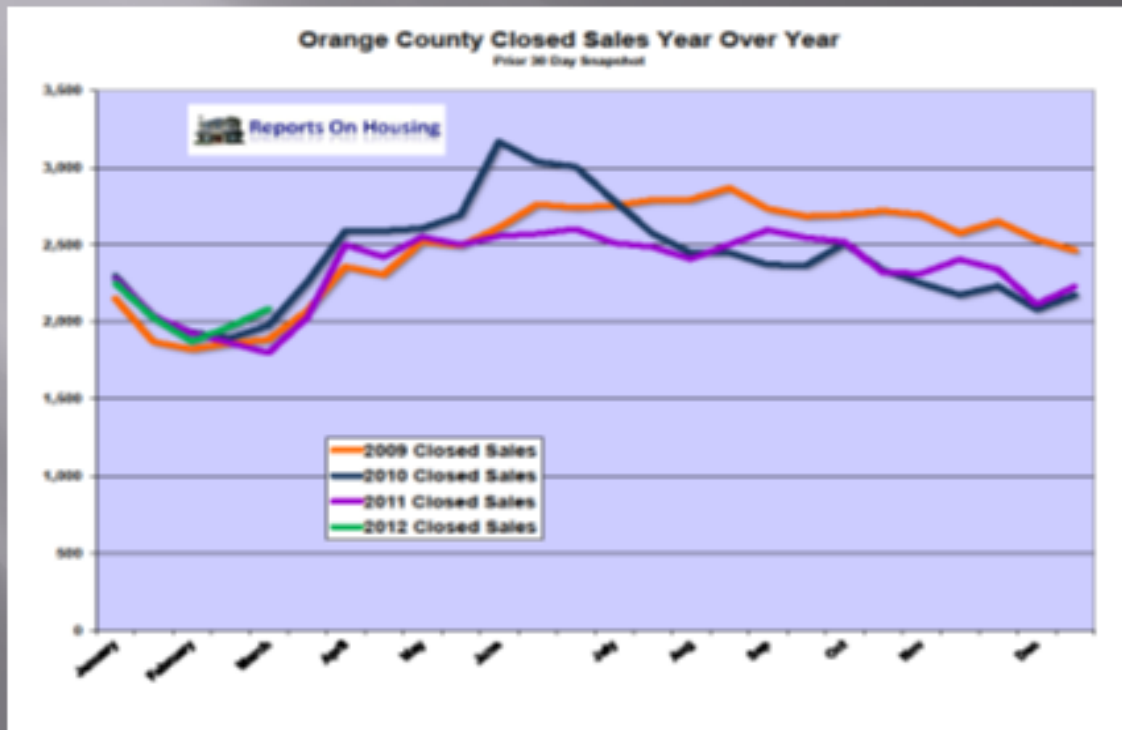
**PRICES IN 2012 vs. 2011:**

January	-6.3%	-9.6%	-1.1%
February	-4.2%	-13.8%	-4.3%



This chart shows how important it is for sellers to get their house on the market for sale in the 1<sup>st</sup> part of the year. The sales will peak May, as they have for each year, and then the buyers begin leaving the market throughout the rest of the year. For the sellers who did not price their homes properly, they will be forced to reduce their asking price by June - to attract the diminishing buyers still in the market.

# THE CLOSING SEASON



Here you can see the time most of the escrows close. It makes sense that the lag between homes being sold and the eventual closing would be 45 to 60 days later – the normal escrow period.

Again the graph shows that the closings also trend downward after July and continue this downward path for the rest of the year. There is something else to note between these two charts. Look at the “pending sales” on page 3, they range between 3,500 to 4,000 during the peak periods. The “closed sales” chart (above) shows that only 2,500 to 3,000 sales actually close escrow. Since the decline began in the housing market, almost 20% of all sales never close escrow. The various reasons are:

1. The house does not appraise for the sales price.
2. The buyer does not qualify for the loan.
3. The short sale is not approved by the lender and it goes to foreclosure.
4. An offer occurs too late during the short sale process and the bank forecloses.
5. The buyer gets tired of waiting for the bank to approve the short sale.
6. The seller won't sell their house for the appraised value and kills the deal.

It is a very difficult market in which to sell your home and you have to be committed to the market conditions, price your home effectively and have a lot of patience!

## Headwinds Effecting Real Estate

- Home prices have been falling for a decade
- Housing bust has wiped out \$13.5 billion of homeowners equity
- Household incomes have fallen for a decade
- Although jobs are on the increase, income is down
- Banks are still holding on to a lot of homes that are due to come onto the market
- Bank foreclosures and short sales will continue to keep downward pressure on prices.

Today's buyers are facing challenges while trying to purchase a home.

- Lending guidelines are still very strict
- Appraisals are low due to declining prices
- Many young buyers are paying on student loans
- Parents have lost equity in their homes and unable to assist them

There has been a decline in 1<sup>st</sup> time home buyers.

- FHA is increasing the costs on obtaining a loan
- Fewer condos and townhomes qualify for FHA financing
  1. Too many units are rentals in the development
  2. Too many units are in foreclosure or the short sale process
  3. Delinquent dues are too high for the development
  4. Insufficient reserves to maintain the quality of the development
- Since October of 2011, 38% of all applications for FHA approval have been denied

Europe is beginning to show signs of an economic slowdown with the smaller countries already in a recession. China has announced that they are lowering their growth expectations for the first time in 8 years. Then add the fact that globally we will see the largest fiscal contraction to have ever occurred. All these issues will continue to put pressure on world economies and thus our housing sectors. Expect continued price declines in housing for another couple of years – even as housing sales continue to rise.