Foreclosure Sales Are Dragging Down Metro Home Values

REAL ESTATE TODAY

By Jim Smith, Realtor

Sales of comparable homes are what establish the value and marketability of your own home, and when those prices go down, the price you can command for your own home also goes down.

When a lender-owned property sells, it usually sells at a discount over comparable properties, and such sales are bound to have a negative impact on the value of surrounding properties.

This impact is seen primarily in homes under $250,000, where 14.2% of the homes sold in the last 12 months were lender owned. By comparison, only 2.2% of the homes sold for over $250,000 were lender owned.

These figures don't count pre-foreclosure sales, or sales in which the lender agreed to accept a payoff less than what was owed rather than get the house later by foreclosure. It also doesn't count those homes which were bought at the Public Trustee's auction by a private party who outbid the foreclosing lender, nor does it count transfers made to "foreclosure fixers." Statistics for these additional sales are nearly impossible to tabulate. All of these transactions, however, have a direct and negative impact on how much your own home can sell for. Foreclosed homes not only sell for less, they are listed for less, so their mere presence on the market subjects other sellers to competition which can keep their house from selling unless they cut their price accordingly.

How severe is this problem and how much has it grown over recent months and years?

Metrowide, according to Metrolist, 6.7% of current single-family listings (not including condos & town homes) are lender owned, 10.3% of homes currently under contract are lender owned, and 8.3% of homes sold in the last 12 months were lender owned. Among condos and town homes, the figures are lower but still high: 5.8% of current listings, 7.5% of pending sales, and 7.1% of listings sold in the past 12 months are or were lender owned.

For single-family homes, the number of lender owned sales was up 33% over 2005 sales, and up 69% over 2004 sales. For condos and town homes, such sales were up 39% over 2005 and up 96% over 2004. Little wonder, then, that in 2006 we are seeing a noticeable impact on the market.

The extent of this negative impact is obscured in the monthly sales statistics released by Metrolist This is not intentional but simply the result of the fact that the average sold home gets bigger every year. The median age of sold homes is about 15 years, and newer homes are bigger homes. As I have reported previously, an analysis of price per square foot reveals a sharper decline in value.

Sellers who make the mistake of pricing their home above the market — and especially above their competition — are bound to find themselves chasing a downward moving market.

The culprits in this unfortunate scenario are the mortgage brokers who have placed buyers into mortgages which are foreclosures waiting to happen. The worse a loan is for the buyer, the more highly compensated is the mortgage broker, either in upfront fees or in commissions paid outside of closing by the lender. You've heard of mortgage fraud, but there is even more of what I call mortgage malpractice, where the mortgage broker puts his/her own interests ahead of their clients' and fails to advise the client of long term consequences or the fact that a lower priced and more appropriate loan is available. This is not illegal, and it's not even unethical because, unlike Realtors, mortgage brokers don't have a code of ethics.

Check Out Jim Smith's Golden Listings:

474 Snowberry Ct. — 4BR, 3½ Baths — a rare 2-story home with a main-floor master, beautiful backyard — **$443,000**

409 Mesa View Way — 4BR, 3½ Baths — great views with an awesome 106" home theatre in the basement — **$549,000**

824 Aspen Road — 3BR, 2 Baths — backs to open space on Lookout Mountain with great view of Denver and the plains — **$499,000**

703 Illinois Street — 3BR, 3½ Baths — town home in downtown Golden, close to Clear Creek and Community Center— **$275,000**

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