How Are Foreclosures Impacting Sales? Should You Be Concerned?

If you have a home that should sell for $250,000 or less, you are being impacted by foreclosures, because that is the price range in which the majority of foreclosures occur.

A review of MLS data supports this assertion. Metrolist (the metro area’s MLS), has a “lender owned” data field for identifying foreclosed properties. Additional properties are in the foreclosure process or described as requiring lender approval for a short sale, but there is no MLS field for identifying them. The statistics quoted below relate only to those properties which have been foreclosed and now the lender is the seller.

There are four separate databases on Metrolist — for single-family homes, condos/townhomes, income/multi-family properties, and land.

Let’s look at the single-family homes that have sold in 2007. As of Oct. 28, 4,823 (14.9%) of the 32,478 homes sold in 2007 were “lender owned.” 71.8% of them sold for under $200,000, representing 33.5% of the sales in that price range. Only 2.7% of the foreclosed homes sold for over $400,000, representing only 2.1% of the sales in that price range.

As you’d expect, having a third of a neighborhood’s sold homes be foreclosed properties can severely impact the marketability of homes that are otherwise comparable in size and location. But when only 2% of sold homes are foreclosed, both buyers and appraisers can reasonably ignore them as comps.

The result of this difference is that lower-priced homes are selling for less and less, while higher-priced homes are holding their own or increasing year-over-year. The condo/townhome database reflects the same dynamic. Of the 1,085 year-to-date sales of lender-owned homes (12.2% of total sales) about half of them (534) were of units which sold for under $100,000, representing 28% of the sales in that price range. Here again, the impact on higher-priced homes was negligible, since less than 2% of units selling for more than $300,000 were lender owned. Among income/multi-family properties, all but two of the 57 sales of lender-owned properties were under $300,000. None of the sales of income properties over $400,000 was “lender owned.”

Comparing 2007 to 2006

The number of lender owned year-to-date sales in 2007 is dramatically higher than for the same period in 2006. For single-family homes, sales of lender-owned homes are up 78%, while for condos/townhomes, sales are up 62%. Above I noted that one-third of the sales of single-family homes under $200,000 were lender owned. That is up from 20.3% last year — more than a 50% increase. I noted that 28% of the sold condos/townhomes under $100,000 were lender owned. That's up from 19% last year — also a 50% increase. I noted that about 2% of the higher-end sales were lender-owned properties. But last year, that statistic was 1.4% for single-family and 0.9% for condos.

What About the Future?
The current lender owned listings suggest that the percentages may go down, because they are closer to the 2006 numbers. For example, 22% of the current single-family listings under $200,000 are lender owned, and 19% of the condo/townhome listings under $100,000 are lender owned. However, by the time these listings become “sold” statistics, uncounted short sale properties will convert to lender owned.