

THE IMPACT OF FORECLOSURES & SHORT SALES ON THE LOCAL REAL ESTATE MARKET

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This month we take a look at what percentage of the single family homes in the five main areas we normally cover, sold in 2010 that were “short sales” and how many were “foreclosures.” I know quite often there is foreclosure information in this newsletter but I thought a more detailed look would be worthwhile.

As can be seen below, of the 250 single family homes which were sold in 2010 in the local area 117 or almost 47% involved short sales or foreclosures...these are not small numbers! Sadly, behind those statistics are families that have experienced very stressful and traumatic times, and may take many years to recover their credit scores. There are numerous ways to look at these numbers, and one can glean whatever information one wants. But from a real estate perspective, we can safely say, that in 2010 almost 1 out of every 2 residential sales in our five areas, were sold under market value. In some cases, especially in foreclosure situations, these homes were sold substantially under a reasonable market value. I feel it is safe to say, they did have a significantly negative effect on regular home prices. For example, if the only “comps” an appraiser has to work with are short sales and foreclosures, they will have to use them when appraising similar properties and that can definitely lower the appraised value.

	Short Sales	Foreclosures	
\$0 - \$99,999	4	31	If we look at the home price depreciation over say the last year - as we have done in past articles, and consider the negative effect short sales and foreclosures have on property values overall, I feel home prices have held up quite well – especially in locations like Lady’s Island. Indeed if you took out that 47% of homes sold under some kind of distress, we could have well seen some quite healthy price gains.
\$100,000 - \$200,000	8	32	
\$200,000 - \$300,000	10	13	
\$300,000 - \$400,000	6	6	
\$400,000 - \$500,000	1	2	
\$500,000 - \$600,000	1	-	
\$600,000 - \$700,000	0	2	
\$700,000 - \$800,000	0	1	
\$800,000 - \$900,000	0	0	
\$900,000 - \$1 Mil and up	0	0	
Totals	30	87	

At this point a brief explanation of short sales may be in order. Let's say a property owner is buying a house, and the mortgage outstanding is \$300,000. Now for whatever reason, they have to sell the house sooner rather than later. It could be for numerous reasons. A job transfer, one spouse may have lost their job, or have serious health issues. For whatever reason, they need to sell the house. But, after they have chosen their Realtor, they come to find out the house is only now worth \$250,000, leaving them (after sale of the house) \$50,000 short of being able to pay off the remainder of their loan. At this point the home owners, would need to contact their lender and explain the situation. The lender would normally ask the home owner fill out paperwork called a "Real Estate Hardship Package". In this package the home owner would need to show why they need to sell the home and explain their hardship. Even if the lender agrees to the short sale, they may still require the owner to make good on the total loan. Even if the owner is "forgiven" the remainder of the loan there can be tax implications. This is only a brief description of a very complicated event.

Buyers of foreclosed and short sale properties need to go into these transactions with their eyes open. In the majority of cases, the property will be sold "As Is". In other words, the seller is unlikely to carry out any needed repairs. Interestingly, sometimes it can be easier to get some needed repairs to a foreclosed house, than a short sale situation. The reason being a bank now owns the house, and obviously has deeper pockets, than the owners having to sell in a short sale situation. The other issue with short sales is the time involved to get to the closing table. In some cases, it can take many months. A buyer, who needs to be in the house within say 45 days, might want to think very carefully about entering into a short sale contract.

Unfortunately we as Realtors are going to have to deal with both short sales and foreclosures for the foreseeable future. Until the economy and job situation truly improve, there seems little to stem the tide. I do believe we have seen an end to the "exotic" loan problems...most of today's foreclosures are folks with a 30 year fixed loan, who have hit on hard times. Beaufort's numbers would be even less at this point if it were not for many second home and lot owners ending up being foreclosed on. For what it is worth, compared with some parts of the country, Beaufort County does not have anywhere near the amount of distressed properties.

