

HOUSING TRENDS UPDATE

February 2011

Housing Trends Update is derived from the

Campbell/Inside Mortgage Finance HousingPulse Tracking Survey

It is based on a national survey of more than 3,000 real estate agents each month and provides up-to-date intelligence on home sales and mortgage usage patterns throughout the United States



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Housing Trends Update is published monthly and is available only to real estate agents who are part of the Campbell/Inside Mortgage Finance HousingPulse survey panel.

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Distressed Property Almost Half of Market; Financing Constricts First-Time Homebuyers

In an ominous sign for the still fragile U.S. housing market, the percentage of distressed properties in home purchase transactions climbed to the highest level in nearly a year in January, according to the *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

Meanwhile, first-time homebuyer activity fell sharply last month – the result of more expensive financing options and tightened mortgage underwriting standards.

Perhaps the biggest news in the January data was a sharp rise in the *HousingPulse* Distressed Property Index or DPI, a key indicator of the health of the housing market. The DPI, or share of total transactions involving distressed properties, climbed from 47.2% in December to 49.6% in January. The increase was a continuation of a trend as the DPI registered just 44.5% back in November.

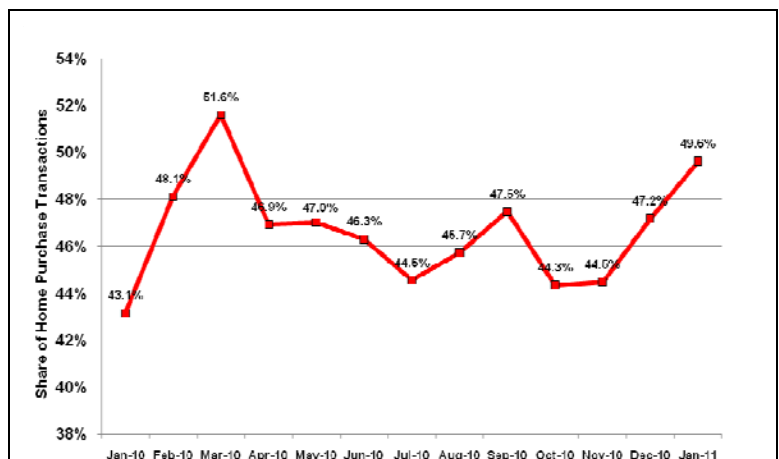
At the current rate of increase, distressed property transactions could account for the majority of home sales within just a few months. Already, in the key state of California, distressed property transactions account for 66% of the market. In Florida, distressed property transactions account for 63% of the market. And in the combined area of Arizona and Nevada, distressed property transactions are a stunning 72% of home sales.

Comments from real estate agents collected as part of the *HousingPulse* survey confirmed the growing share of distressed properties. “I have noticed that less than 40% of what is on the market is property that is just ‘For Sale’ and not a short sale or REO,” commented one agent in California. “We are primarily an REO/short sale market with (only) about 20% conventional sale at this juncture,” added an agent in

HousingPulse Depressed Property Index Jumps

The *HousingPulse* Depressed Property Index in January rose to just under 50% - the second highest level since March of last year.

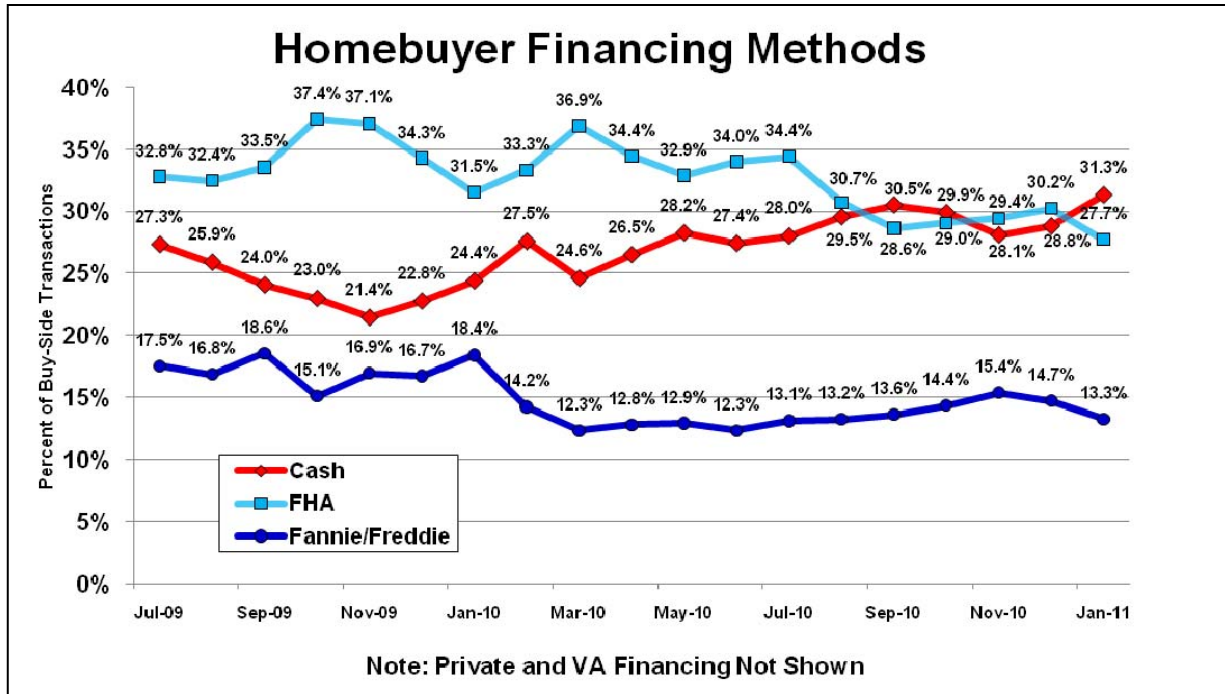
Source:
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Nevada. “Short sales occupy 65% of market share, REO's occupy 30% of market share, non-distressed are 5% or less,” reported another agent in Nevada.

The latest *HousingPulse* survey also found a sharp dip in first-time homebuyer activity last month. The drop came at the same time long-term mortgage rates climbed to above 5 percent and FHA hiked the fees associated with low downpayment mortgages. The first-time homebuyer share of home sales was 35.0% in January, down from 37.7% in



December. FHA lending also took a tumble, falling from 30.2% of financing options in December to 27.7% in January.

Mortgage financing that is not government supported—Fannie, Freddie, or FHA—has been steadily increasing as government options become more expensive. The proportion of other financing was 27.7% in January, after having been 25.7% a year previously.

“The local housing market is not the issue. The issue is dealing with lenders. Not only do they look for any excuse not to lend money, they frequently jeopardize the deal at the last moment. The time needed to close a transaction is now approaching 60 days due to lender practices...The markets are a direct result of lender practices. I have no shortage of buyers. What I do have a shortage of is lenders willing to lend money,” commented an agent in Alabama. “Most of my buyers are FHA and it is hard to get the sellers to accept their offer if there are multiple offers and some are conventional loans,” added an agent in California. Frustration with long closing times seem to be increasing—“Lenders can't get the paperwork completed. I could have closed three transactions but the lenders can't get it done,” reported an agent in Georgia.

The increase in distressed properties, combined with constricted financing and a reduction in first-time homebuyers, is causing downward pricing pressure to build in the market, especially for the categories of damaged REO and move-in ready REO. Over the past 12 months, time on market for the REO categories has strongly increased while the average number of offers has decreased. Also over the past 12 months, average prices for damaged REO have declined by 16% while average prices for move-in ready REO have declined 20%. Non-distressed prices have declined only 4% while the prices for short sales have been nearly flat.