Housing glut looms

Shadow inventory by county
The Observer found a hidden excess housing inventory of more than 34,000 properties in the Charlotte region. This shadow inventory consists of homes that are crawling through the foreclosure process, properties that have been foreclosed on but not put up for sale or houses whose borrowers are so delinquent they are unlikely to recover. Such excess inventory could depress housing prices.

Key
Total MLS listing
Shadow inventory

SOURCE: An Observer analysis of data from the U.S. Census Bureau, the Charlotte Regional Realtor Association and mortgage research firm RealtyTrac and Corelogic.

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Housing glut looms behind region's 'shadow inventory'

By Kerry Singe and Gavin Off

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In Mecklenburg County, the Carolina Multiple Listing Services had 7,887 homes on the market as of Oct. 31. But the Observer found far more in the shadows: an additional 16,800 distressed properties not counted among homes currently for sale.

In its analysis, the newspaper found:

About 13,000 Mecklenburg homes whose owners are more than 90 days delinquent. It is unclear how many of those are already in foreclosure, but experts say the majority are likely to be foreclosed on at some point.

More than 3,800 homes owned by lenders but not listed for sale.

For its analysis, the Observer used data from mortgage research firms RealtyTrac and CoreLogic, the Charlotte Regional Realtor Association, the U.S. Census Bureau

• **The Apprehensive Buyer**

The mere thought of shadow inventory can make potential buyers wary of investing in a new home.

Matt Jones and his wife were considering a home in the Carrington Ridge community in Huntersville earlier this year, attracted to the location, nice neighborhood and good schools.

As they were considering the house, Jones noticed two vacant homes nearby. Talking with neighbors, he learned they'd sat empty for months. A principal with a local real estate firm, Jones researched the properties and suspected at least one would be foreclosed on because it had sat vacant for so long.

The thought of buying a home near distressed ones was scary, Jones said. But the couple factored the depreciation into what they believed the house was worth and ultimately went ahead with the purchase, paying $185,000, or about $30,000 less than the previous owner had paid four years earlier. That owner had also added numerous upgrades, including wood flooring, new storm doors and wooden stair treads.

"I was definitely concerned," Jones said. "But (foreclosures) have to happen to improve the overall health of the market. Sometimes you have to take a long-term approach." Kerry Singe

• **The distressed owner**
Homes can linger in the shadow inventory for years.

Kimberly Bennett and her husband bought their home in northwest Charlotte in 2005 for $130,000.

Three years later, Kimberly's husband, a builder, lost his job and wasn't able to find steady employment. Despite help from her parents and a loan modification that cut their payments to $600 from $900, Kimberly Bennett contacted the bank in November 2010 to say they were no longer able to make payments.

The loan servicer, Wells Fargo, sent them a letter in January saying the couple was in default. On Nov. 2, a year after the couple had stopped paying on their loan, the bank foreclosed.

"It was an absolute nightmare," said Bennett of the years of struggle.

A spokeswoman with Wells Fargo said the bank is in the process of turning the property over to the lender.

Realtors say in better economic times banks typically put foreclosures on the market immediately.

As of Friday, there was still no "for sale" sign in front of the house. Gavin Off

Shadow inventory is not a new phenomenon. But because of the housing meltdown and recession, banks are taking back a record number of homes. The foreclosure pipeline is also swelling as banks take longer to complete foreclosures and more borrowers fall behind on their loans.

When shadow inventory comes on the market, it typically sells at a steep discount, depressing neighborhood values. It scares buyers and reduces demand. Because the housing market is such a key part of the broader economy, large amounts of shadow inventory can ultimately slow economic growth.

Real estate agents say they aren't worried because they don't believe the pipeline will burst and flood the market at once. Plus, they say, demand has historically proven strong enough in Charlotte to gobble through any extra supply.

Nationally, the supply of homes for sale was estimated at 3.3 million as of October, according to the National Association of Realtors. Real estate research firm CoreLogic estimated U.S. shadow inventory at an additional 1.6 million homes. The Observer's analysis suggests Charlotte is among the areas with proportionately much more shadow inventory than the country as a whole.

Wells Fargo senior economist Mark Vitner said Charlotte's shadow inventory, while significant, is still less than that in former hot spots such as Miami and Phoenix.

"Shadow inventory is probably the most critical part of the equation in terms of getting a recovery in housing," Vitner said. "It has a chilling effect on people's willingness to sell their homes. And it means it will take an even longer time for prices to get back."

Shadow inventory problems extend across county lines. The Observer's analysis shows the seven counties surrounding Mecklenburg have more than 17,300 homes in shadow inventory. In contrast, the seven counties had 8,636 homes listed for sale as of October.

Lancaster County in South Carolina led the region with...
nearly four times the amount of shadow inventory as for-sale listings. Iredell County had the lowest proportion, with shadow inventory measuring about 1.5 times the amount listed for sale.

**Still growing**

Allen Tate Company executive Pat Riley said despite the slow economy, Charlotte's housing market has something going for it that other areas don't: People are still moving here.

During the boom days, in the middle of the last decade, demand was so strong that the Charlotte area typically added - and easily absorbed - 26,000 new homes annually, Riley said. Since the downturn, Charlotte leaders have continued working to diversify the region's employer base, something that will bring more families to the area, he said.

"We have the buyers for thousands of homes," he said.

Still, Charlotte-area prices are expected to continue to fall next year partly because of the excess supply, Riley said.

He expects home prices to start appreciating in 2013 at a rate of 1 percent to 3 percent a year. As of 2010, average sales prices have fallen 9.6 percent since peaking in 2007, according to the Charlotte Regional Realtor Association.

Some experts don't expect housing prices nationally to return to pre-recession levels for another 10 years.

"Absorption (of shadow inventory) won't be the problem," Riley said. "Price depreciation will be."

**Foreclosure pace**

One of the biggest reasons shadow inventory has grown is the slow pace at which banks are tackling foreclosures.

Lenders temporarily stopped such proceedings in 2010 after servicers discovered that workers signed false or incomplete legal documents and made other mistakes while foreclosing on homes. Potentially millions of homeowners now may be able to get an independent review of their case.

Some consumer groups say banks are refraining from foreclosing because they don't want to take losses from bad loans or flood an already weak market. Other real estate experts say banks may not have enough employees to deal with the backlog.

Foreclosures in North Carolina can last more than two years instead of 90 days, as they once did, attorneys
and real estate agents say.

The Observer spoke with four families whose homes are scheduled for auction. None wanted to talk for this story. All said they were trying to save their homes. Two said their auctions had been postponed.

Mitchell, the attorney, said he has one client who stopped making payments on his upscale Union County home 2 1/2 years ago. The client hasn't heard from his lender and continues to live in the house.

"There's been no communication," Mitchell said. "He's living there for free."

Another client recently got a bill from the city of Charlotte for lawn maintenance on the home she abandoned in August. She'd thought the bank would foreclose but it hasn't yet, Mitchell said.

"I think we haven't even begun to see the foreclosures," he said. "As bad as it's been, it's going to get worse because so many have been deferred."

A spokeswoman for Wells Fargo said the foreclosure process can be lengthy.

"We work hard to help customers remain in their homes when they encounter difficulties and attempt to avoid foreclosure," said Veronica Clemons with Wells Fargo Home Mortgage. "When that is not possible, we work diligently to manage foreclosed properties in a manner that benefits the community, until the home is sold to a new owner."

Bob Davis, executive vice president with the American Bankers Association, said lingering joblessness is causing more people to default on their mortgages, adding to the pipeline.

"Most of the delinquencies now are connected to the poor labor market and job loss," Davis said. "You get into a hole you are not likely to get out of. The net result is there are a large number of homes that are in the foreclosure process that likely will end up being foreclosed and back on the market."

He said lenders don't want to keep properties off the market. Instead, he said, banks are taking longer to foreclose because government programs and regulators have added requirements and greater scrutiny.

"It costs money to keep (a house off the market)," he said. "You're better off moving it along."

**Shadow buyers**

Charlotte Realtor Jennifer Frontera believes many of the shadow homes will fall out of the pipeline as lenders work with borrowers on loan modifications or short sales, where the lender agrees to accept less than the loan amount.

"People see shadow inventory as a big, scary, gray blob that will overtake our market at once," said Frontera, president-elect of the Realtor association, who has sold bank-owned homes for 13 years. "The reality is, it will end up coming on the market gradually over time."

Frontera also sees something sales reports aren't taking into consideration: "shadow buyers."

As an example, Frontera points to a foreclosed home that a bank is currently renovating. The work is under way, and the house isn't on the market. Yet, Frontera has received 20 calls from prospective buyers.

She didn't want to share where the house is located, other than to say it is in a well-established Charlotte
neighborhood, for fear of how many calls she might get.

"There are buyers out there who want to be in the market, who are waiting for the perfect property," she said.

David Benham, who founded Charlotte-based Benham REO Group with his brother Jason, can attest to the demand for distressed homes.

Benham's real estate company, which has 95 brokers nationwide, works with lenders to dispose of distressed property. His north Charlotte office receives about 120 foreclosure assignments a month, he said.

This year, he saw a 25 percent increase in business. Next year, he expects his business to double. Demand, he said, outstrips supply.

"Everything we have is flying off the shelf," he said. "The inventory's not there."

As an investor, "shadow inventory does excite me. I look forward to getting good deals on houses," Benham said. But as a homeowner, he said he knows his home's value will take a hit as more foreclosures reach the market.

"It's a mixed bag of emotions," he said. "I'm sure a lot of houses like mine are going to hit the market eventually as banks take losses on them and that will push values down."

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Housing won't take off but it can rebound from anemic levels.

There's a lot of pent-up demand for housing, says Ivy Zelman, CEO of Zelman & Associates, a housing-research firm. More and more people want to buy sooner or later because they feel no urgency to push them to make that decision to buy sooner. Ms. Zelman, who was one of the first housing analysts to warn of a bubble in 2005, has told investors that continuing declines will be much more confident that we're at the bottom.

Inventories of unsold homes have been coming down, showing very healthy declines," she says. "If that continues, I'd be much more confident that we're at the bottom.
Housing

Watch What the Banks Do With Their Foreclosures

The housing market sorely needs the economy to add more jobs to stimulate demand. Record-low mortgage rates and home prices down by 30% from their peak haven't done it because many Americans still aren't confident enough to buy a home. And some willing buyers are having a hard time qualifying for mortgages. But whether home prices hit a floor in 2012 also depends heavily on how banks manage a huge overhang of foreclosed homes they haven't yet taken back and resold. Banks own around 440,000 foreclosed properties but have a further 3.4 million loans in foreclosure or on which payments haven't been made in three or more months, Barclays Capital estimates.

More of those properties are likely to hit the market in the coming year. Because banks are often much faster to slash prices than traditional homeowners, prices tend to fall faster when more homes are being sold by lenders. Prices can stabilize as long as the "distressed" share of home sales remains at about one-third of all sales. If that share rises, look for price declines to accelerate. When the distressed share drops, look for prices to begin rising.

Nick Timiraos