

Real Estate and Development

Foreclosures could lead to opportunities

By [Brian Wargo / Staff Writer](#)

April 27 - May 3, 2007

While Las Vegas and Nevada garner national headlines over their increasing number of homes entering the foreclosure process, local housing analyst Dennis Smith said it got him thinking how that growing concern can help solve another problem in the valley.

Smith, the president of HomeBuilders Research, who analyzes the Las Vegas housing market, said the spotlight has been on the negative fallout caused by foreclosed properties.

Nevada kept its No. 1 spot in the country in March for its foreclosure rate calculated by national tracking firm, RealtyTrac. Las Vegas made the list of cities at No. 2.

Foreclosures increase inventory and lower prices and that could provide an opportunity to deal with the region's problem with affordable housing, Smith said.

"There is plenty of demand for housing, and the foreclosed properties could offer ownership opportunities to many," Smith said. "If officials really wanted to help those that have been priced out of the housing market, they would restrict the sale of foreclosed properties that might be classified as entry level to investors and allow only owner occupants."

When he first broached the subject in his newsletter, Smith said he was taking a tongue-in-cheek approach but he said it's something that's starting to make sense to him. First-time homebuyers should get the first shot at those homes, he said.

Smith said it's a long shot because it would require some federal or state legislation and also the cooperation of banks who repossess the homes.

"I don't know if you can do it, but what's wrong with the idea?" Smith asked.

Many investors get a list of foreclosed properties and acquire them from banks that are looking to get them off their books, Smith said.

"You are not telling me that there isn't a market out there for people who might be able to afford a \$250,000 home that can't afford one for \$300,000," Smith said.

About-face: In his latest take on the Las Vegas housing market in light of new home sales remaining weak, new home prices dropping and inventory of existing homes increasing, Smith said he appears to have underestimated what was happening when he predicted at the end of 2006 that the market was bottoming out.

Smith said any suggestions that the market was going to improve by the end of 2007 appears to have been just wishful thinking. He said a recovery may not happen until 2008 or even 2009 based on the current trends.

Smiths said he wouldn't be surprised if some neighborhoods saw home prices drop as much as 20 to 30 percent because of a glut in those areas. Other neighborhoods where fewer homes are on the market would remain the same, he said.

The fallout from the subprime market has been felt by the housing market because of tighter credit standards, Smith said. In some cases, it's taking a credit score of 720 to qualify for a 30-year fixed loan. Those with scores of 680 have to jump through extra hoops to try and qualify for a loan, he said.

"I have heard this from builders and lenders, and it is not helping sales," Smith said.

The 2007 sales figures will be down from the sales of 2003 to 2006 and the same will probably occur in 2008, Smith said.

The growing inventory of existing homes also makes it harder for those who want to sell their home and buy a new one. Smith reported that the cancellation rate in March ranged from 24 percent in the northwest to 42 percent in the south valley.

More foreclosures: Michael Krein, the president of Nevada Real Estate Services, who handles foreclosure cases, said what's happening in the foreclosure market is nothing in comparison to what's coming. He said he was handling about 500 repossessed properties and would like to add staff to handle another 500.

Many adjustable rate mortgages will kick in by November and a second wave of cases entering foreclosure will occur, he said.

"The worst is yet to come," Krein said.

Patrick Egger, a local real estate analyst, wrote me and suggested it should be pointed out that even though Nevada has been singled out for a growing number of cases entering the foreclosure process, that doesn't mean all of those cases are foreclosures.

"It appears that many are including notices of default in their foreclosure figures. The Notice of Default is not a foreclosure nor should it be included when comparing to past years unless you can verify that foreclosures from past years also include the NOD's," Egger said.

A Notice of Default means that the lender has filed a public record that the borrower has missed a payment and is now in default of the terms of the loan, Egger said. This does not place the borrower in foreclosure at this point, only makes the breach a matter of public record, he said.

"If the borrower brings the payment current, this is meaningless," Egger said. "While NOD's are the first step in the process, they do not necessarily reflect the true picture of the number of properties in foreclosure or foreclosed in any one time period."

RealtyTrac, which provides the data to The Wall Street Journal's Real Estate Journal, MSN Real Estate and others, said it does apple versus apple comparisons.

Its numbers include default notices, auction sale notices and bank repossessions from the months, quarters and years it makes comparisons.

In March for Nevada, the firm reported 4,738 homes entering the foreclosure process or one home per 183 households. That includes 3,227 Notices of Default, 857 Notice of Trustee Sale and 654 bank repossessions.

Last word: [John Restrepo](#), principal of [Restrepo Consulting Group](#), spoke at a commercial real estate seminar when he joked about the three reasons why people should believe economists:

1. We have a firm grasp of the obvious.
2. We generally don't know what we are talking about - but we make you feel it's your fault.
3. We have forecasted nine out of the last five recessions.

Brian Wargo covers real estate and development for In Business Las Vegas and its sister publication, the Las Vegas Sun. He can be reached at (702) 259-4011 or by e-mail at wargo@lasvegassun.com.