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Real Estate Rout of 2009 — How Low Did It Go?

By Kim Souza

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The recession of 2009 delivered a vicious blow to a local real estate market already struggling to regain its balance from the building excesses of prior years.

Nearly 7,000 foreclosure filings wreaked havoc on home prices across Northwest Arkansas in 2009, shrinking the average value by 12 percent.

Homebuyers found bargains but struggled to obtain financing. Sellers found their homes worth less than expected — sometimes less than what they paid.

Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas, said 2009 "was a year in which the chickens came home to roost for many." She said 2009 represented the depths of the recession here at home.

She characterized the first half of the year as a free fall for real estate prices, home sales, foreclosures and builder bankruptcies before the market began bouncing along the bottom sometime last summer.

"In the second half of 2009, we began digging our way out of the trenches — a process that will likely continue throughout 2010," Deck said.

A home is the largest single asset owned by most consumers and Northwest Arkansas is no exception. As home values rose quickly during the boom years, economists said homeowners felt wealthier and spent more money. Consumers tapped into home equity lines made possible by easy credit. But by 2009 much of that wealth had been eroded from falling real estate values.

"When consumers feel poorer they tend to spend less money, which can have devastating multiplier effects on other local businesses," Deck said. "It's virtually impossible to say how much of the local economy is tied to the real estate sector because the two are so closely intertwined."

The brutal market conditions in both Benton and Washington counties showed no mercy through the first half of 2009 with a total home sales volume of $403 million, down 18.6 percent from 2008 and 8 percent fewer homes sold than in the prior year, according to Mountdata, an independent real estate marketing service.

Local foreclosure filings jumped 32 percent in 2009 with one in every 25 families in jeopardy of losing its home, according to Realtytrac, an independent source for tracking foreclosures across the nation. The local foreclosure rate registered three times higher than the state's rate of one in every 78 households.

Deck said 2009 can be characterized as the "year of the foreclosure" exacerbated by rising unemployment, lack of builder cash flow and continued pressure from banks to collect on real estate loans made during the boom years.

There is plenty of blame to share for the local real estate market woes — lax lending, overbuilding, 100-percent creative financing for borrowers and, more recently, rising unemployment — all had a hand in bringing down property values from inflated highs reached in 2006.

Pricing Impact

The growing amount of bank-owned real estate from Fayetteville to Bella Vista represented broken dreams for many families and losses for lenders on the hook for roughly 1,000 homes sitting empty across the region at the end of 2009, according to Realtytrac.

Banks, eager to move the foreclosed homes off their balance sheets, typically sell the property at discounts up to 30 percent on average, local agents said.

In 2009, there were 435 banked-owned home sales in Benton and Washington counties recorded through the Multiple Listing Service. Another 180 new homes were sold directly by financial institutions in 2009 — roughly 20 percent of total new home sales last year, according to Streetsmart Data Services.

Deck said consumers and lenders were hit equally hard from plunging real estate values.

Lower prices set by these distressed sales across dozens of neighborhoods hit sellers head-on in 2009.

Homeowners who needed to relocate or refinance were caught in the downward spiral from no fault of their own, said Walt Fenton, mortgage lending manager at First Security Bank in Fayetteville.

"I sold a 1,700-square-foot home to a couple in east Springdale in October 2005. They paid $149,900, but when they had to sell the home in June 2009 to relocate to Minneapolis, they got a huge shock," said Jason Smith, real estate broker with Crye-Leike Realty in Fayetteville.

He said active foreclosures in the immediate area were the only comparable sales appraisers could use to value the home. These price evaluations were 30 percent short of the mortgage balance owed.

"The lender would not work with them on a short sale until they were at least two months behind on their mortgage payment. So they stopped paying their mortgage in order to get their lender to consider a short sale," Smith said.

A short sale is when a lender agrees to accept an offer for less than the amount owed and write off the difference.

Smith said the couple finally got an offer of $103,000, which the lender accepted.

"The young couple lost nearly $50,000 on this deal, and they can't buy another home for at least two years because the short sale now shows up on credit reports, much like a repossession," Smith said.

J.P. Sexton, mortgage lender at Liberty Bank, said home prices across the region resemble a patchwork quilt making lenders' and appraisers' jobs more challenging.

"Let's say I have a borrower who wants to refinance his home at 205 Elm St. in Rogers. At 201 Elm St., the home sold for $190,000 in June; my borrower owes $160,000 on his home. But a street over, a bank-owned home just like my borrower's in size and condition recently sold for $130,000. My appraisal came back at $150,000 — a compromised value — which requires more fieldwork and justification for the secondary mortgage buyer I have to secure," Sexton said in September.

He said this homeowner would likely need to bring a $10,000 check to the closing table to make the refinance possible.

Falling prices also presented financing hurdles for some buyers.

Buyers faced more financing challenges because mortgage insurance providers said Benton and Washington counties are declining markets. This designation required buyers to pay 5 percent more in down payments for some loans made by Fannie Mae and other government agencies, Fenton said.

"There are more and more neighborhoods in the region where foreclosures and short sales are the primary source of comparable sales data that appraisers use to set the value of a particular property," Charles Hudson of Hudson Appraisals in Rogers said in September.

Hudson said there is no neighborhood immune, given the width and scope of the economic distress and rising unemployment rates. But he said some zip codes have fared better than others.

Descent

All but one of the area's major real estate markets saw prices sink in 2009.

Bentonville was the exception. Although the city had 148 bank-owned properties at the end of 2009, its median price per square foot improved to $86.80, up 2.84 percent throughout the year, Mountdata reported. The city had 29 distressed sales recorded in 2009 through the Multiple Listing Service.

Elsewhere in the region, the increasing number of bank-owned sales put downward pressure on home prices.

Rogers led the region in the number of bank-owned homes listed for sale at the end of 2009 — 294 listings. There were 84 distressed home sales recorded through the Multiple Listing Service, an increase of 171 percent from the prior year, Mountdata reported.

Rogers' median home sales price per square foot fell 17.6 percent in 2009, thanks to an uptick in foreclosure deals working their way through the pipeline.

Bella Vista also continues to see prices decline — 5.82 percent in December from a year ago, according to Mountdata. The city reported 29 distressed home sales, up 71 percent from 2008.

The region's real estate stalwart — Fayetteville — was some two quarters late moving into the real estate correction than the cities in neighboring Benton County.

"Fayetteville's market is more mature and did not inflate as quickly as Benton County. So naturally, it will likely be the last to fully recover," said Tom Reed, partner with Streetsmart Data Services.

Mountdata reported Fayetteville's median sales price fell 8.34 percent in 2009 and continues to see downward pricing pressure with some 161 distressed property listings. Fayetteville reported 48 bank-owned sales last year, a 100 percent increase from 2008.

Springdale's housing market took the hardest price beating in the first half of 2009 — down an average of 20 percent from the prior year. Much of the price decline can be attributed to the 128 bank-owned property sales recorded by the MLS in 2009.

Springdale's prices recovered steadily by the end of December — down just 4.76 percent from a year ago, according to Mountdata.

Markeet Winners

While volatile home prices hurt many, some benefited.

Lyn Morgan bought her Bentonville home in March and negotiated $32,000 off the new home's original list price of $149,900. The property was a builder foreclosure owned by Bank of the Ozarks. She paid roughly $67 per square foot and still worried about overpaying in a falling market.

More recently, Patricia Tomasiello purchased her Rogers dream home for $50 per square foot — albeit a diamond in the rough. She secured a government-based 203(k) loan that allowed for $20,000 in home repairs.

Property values in central Rogers where Tomasiello purchased her home range between $72 and $74 per square foot, which means she is looking for instant equity once the home renovations are completed.

Some sellers made money in 2009.

Austin Bivens of ReMax Properties in Springdale said in September he was privileged to witness a seller closing with a happy ending. His seller actually walked away with a 10 percent profit on a home located off Zion Road in Fayetteville. The home sold for $225,000.

“This couple bought the home two and a half years ago and the key to their profitable turnaround was that there were no foreclosures or short sales in their neighborhood. There is also limited inventory in this area near the heart of Fayetteville’s shopping district,” Bivens said.

He said this was the first time in the last year he has seen a seller make money on a home owned less than four years.

Look Ahead

Until the majority of foreclosures work their way through the system, pricing will continue to be a mixed bag, Deck said.

More foreclosure sales were completed in 2009 than 2008 in the local market, which helped the region find a pricing bottom, said George Faucette, president of Coldwell Banker Faucette Real Estate.

“Prices started to stabilize in some markets by the fourth quarter. We are optimistic prices will gradually recover but still worry about aftershocks when the government pulls out its help,” Faucette said.

Sexton and other mortgage lenders predict higher interest rates on the near horizon as the Federal Reserve will end its weekly purchases of Fannie Mae and Freddie Mac loans on March 31.

The government’s $1.25 trillion purchase program has propped up demand for the mortgage-backed securities in recent months, keeping interest rates artificially low to help the struggling housing market.

The extended tax credits for homebuyers are also expiring in April. Buyers have until June 30 to close their home purchases.

Faucette sees a window of opportunity for buyers in the short term but said all bets are off once the government stimulus programs have expired.

Lenders agree the new rule changes on Federal Home Admission loans, which take effect between March and June, also threaten the peak selling season. In short, these changes will mean buyers shopping for homes priced below $150,000 will need more cash for closing. Seller incentives will be cut from 6 percent to 3 percent, and FHA required mortgage insurance premiums will increase from 1.75 percent of the purchase price to 2.25 percent.