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Appraisal Insights for Real Estate Professionals



NEW TRENDS EMERGE AS FORECLOSURE RATES SOAR

--Alan Hummel, SRA, SVP/Chief Appraiser

As the rate of foreclosures continues to increase to record levels, we're seeing some interesting, albeit predictable, trends emerge.

One doesn't have to look beyond the morning paper for a reality check. According to Realty Trac, foreclosures have increased 14% in the second quarter over the previous quarter, and a whopping 121% increase from the second quarter of 2007. And while the majority of foreclosure activity is endemic in specific markets throughout the country such as California, Nevada, Arizona and Florida, 48 of all 50 states have experienced year-over-year increases. Various industry sources have reported that foreclosures and lender-mediated sales account for between 25% and 30% of all real estate transactions nationwide with further increases expected.

However, with the continued escalation of foreclosures, we're finding that the purchasers of the affected properties, who were once limited to investors wanting to renovate and flip them, have expanded to include a growing number of first-time buyers and homeowners looking to buy affordable second homes. Undoubtedly, there are significant opportunities in the foreclosure market for the well-informed and cautious buyer.

The proliferation of higher-end foreclosure properties is also a growing trend. Historically limited to median to lower priced homes, the foreclosure crisis has affected a growing number of upper bracket homeowners, many of whom purchased their homes with a teaser rate loan and can no longer afford the higher payments associated with adjustable interest rates. This is in sharp contrast to foreclosures in the past where homeowners typically lost their homes due to changes with their employment or economic status.

Additionally, declining property values has been a contributing factor in the growing rate of foreclosures as many homeowners have lost significant equity in their homes and, as a result, have been unable to refinance. The prevalence of fraudulent transactions has also fueled the explosion of mortgage defaults.



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The overall condition of foreclosure properties appears to be changing as well. Increasingly, we're finding that a growing number of properties are in "move in" condition with minimal repairs required—a departure from previous trends where the typical foreclosure property was in fair to poor condition requiring extensive repairs. For the most part, the improved conditions of foreclosure properties is the direct result of newer construction and its occupants having resided in the property for a short period of time.

State governments and municipalities across the country have begun to implement new laws and policies to help combat the foreclosure crisis. Congress is involved, too, having recently passed new legislation that includes provisions for the development of a refinance program for homebuyers with subprime loans that have become unaffordable. While the effectiveness of these measures is still unclear, at least some relief is in sight.

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