

WEEKLY FEATURE



Housing in the Sunshine States is Turned Upside Down!

[By Ron Cahalan]

Housing investors who were speculating on the hot sun-belt states' real estate markets are finding that they have been burned. Many are walking away from their investment properties, and they are a big part of what has driven the foreclosure rate on prime mortgage loans to a record high in the first quarter of 2007. The problem is most obvious in California, Florida, Arizona, and Nevada.

The trends in these and some other states that had, just a short time ago, very overheated housing markets are possibly just glimpses of the problems coming in other areas across the country that many analysts think also experienced hot markets and housing bubbles led by strong speculative buying. This was especially visible in condominiums during the housing boom between 2000 and 2005.

Figures from the Mortgage Bankers Association released recently showed that foreclosures are on the rise in nearly every housing category. This is particularly pronounced in the Midwest states, where consumers are suffering from manufacturing cutbacks, and in the sun-belt states, where investors came in droves in hopes of making a quick buck by buying and selling homes without holding them for very long (known as "flipping"), oftentimes never even renting them out and simply putting them right back on the market at an inflated price.

This trend emerged only this year and has quickly driven the foreclosure rate on prime

loans to a record 0.25%. Unfortunately, many of these investors were well-off real estate professionals who had profited from the wave in the housing boom. Sadly, though, there have been many middle- and upper-income families with previously good credit and a fair amount of cash to invest that were new to trying real estate investing. Many of their dreams of likewise profiting quickly have been replaced with nightmares and fears of losing all that money as their investment homes' prices have plunged. Rather than take the risk of suffering sizable losses in a declining housing market, many investors have stopped paying their loans and simply turned their properties over to the bank to be auctioned off.

One of the greatest problems is when an investor is in a position to refinance or sell but his or her house prices have fallen below his or her outstanding loan balance. This is one of the most difficult positions to be in. We are seeing housing continue towards a recession, and it is being reflected in prices. The rise in foreclosure is far from only a sub-

prime problem that is limited only to areas where incomes are low and the economy is hurting. It is also becoming a major problem in the wealthier states, where real estate itself was the major force driving economic growth.

Even if you were not one of those investor-speculators, don't think this situation doesn't affect you. Many of us will pay a price as investors walk away from their properties. People with homes in major metropolitan areas, resorts, golf communities, and coastal areas that have been hit by high rates of foreclosure will see their home values depreciate as houses are auctioned off at frighteningly low levels below the prices they saw during the height of the housing boom.

Delinquency and foreclosure rates in the Northeast are now on the rise as well. The surge in foreclosures primarily seen in the sun-belt states is now being seen across many markets. Signs show that the trend is starting to hit condo prices especially, with regular housing following close behind.

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Are we facing a full-blown housing crisis?
We believe so.

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