



INSIDE MORTGAGE FINANCE[®]

Distressed Property Sales Surge to Two-Thirds Of Market, New *IMF*-Sponsored Study Finds

This year's deepening mortgage default situation is flooding the housing market with distressed property sales. According to preliminary results contained in a new study sponsored by *Inside Mortgage Finance*, nearly two-thirds of transactions in the home purchase market now involve some sort of distressed property.

Additionally, the new research found that recent appraisal problems and rising mortgage rates are taking their toll on the home purchase market – with first-time homebuyers hurt more by rising rates and trade-up homebuyers hit harder by the advent of tougher appraisal standards.

The new study is based on a nationwide survey of more than 1,500 real estate agents conducted in late June by Campbell Surveys. The research, which focused on current conditions in the home purchase and mortgage markets, is part of a series that tracks home sales and mortgage trends.

Back in February, a separate Campbell study found that 56 percent of completed home sale transactions involved distressed properties. The new June research found that share has grown significantly in just four months.

The latest study also explored the characteristics of distressed property sales and found that nearly half of all current transactions involve real estate owned or REO. And of the total REO sales, more than half involve damaged properties in need of repair.

The fact that a quarter of current home sales involve damaged REO properties has significant implications for the mortgage market since FHA 203k or other rehabilitation loans are generally needed to purchase homes in need of major repairs. This financing restriction adds to the required discount for damaged REO to sell – real estate agents responding to the survey indicated that damaged REO sells for an average discount of 36% from the overall market. Not surprisingly, the new study found that investors – as opposed to first-time homebuyers – are more likely to purchase damaged REO properties.

“Damaged REO is priced substantially below market and sells quickly to investors, while non-distressed property sells slowly to current homeowners at small discounts. First-time homebuyers concentrate their purchases on move-in ready REO and short sales,” reported Tom Popik, director of mortgage research at Campbell Surveys and a principal at Geosegment Systems in Nashua, NH.

Much of the new study examines how recent developments in the residential mortgage market are impacting home sales activity.

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For example, the research found that a significant portion of signed purchase and sale agreements are being cancelled due to appraisal issues – namely the recent implementation of tougher appraisal requirements.

For information on how to obtain the complete report, contact John Campbell at Campbell Surveys at john@campbellsurveys.com or (202) 363-2069. ♦

