

## 25% of home sales result in loss

Contributed by Sam Stamper  
Monday, 25 August 2008

Values have fallen so far in many cities that sale prices don't cover what sellers originally paid. That means more hard times before markets recover. By Les Christie, CNNMoney.com staff writer Last Updated: August 14, 2008: 3:22 PM EDT

NEW YORK (CNNMoney.com) -- More homeowners than ever are selling at a loss, propelling the real estate market deeper into crisis.

In the 12 months that ended June 30, nearly 25% of all homes sold nationwide fetched less than sellers originally paid, according to real estate Web site Zillow.com.

While the nation's double-digit decline in home prices has been well documented, the new report underscores the economic force of those price declines. Homeowners are walking away with much less in their pocket when they sell. And that affects more than the real estate market.

"It's stunning what's happening out there," said Stan Humphries, Zillow's vice president of data and analytics, who looked at statistics that date back to 1996. "The numbers are the worst we've seen and it's not just the magnitude of the problem but the scope - so many markets are affected."

25% of home sales result in loss Values have fallen so far in many cities that sale prices don't cover what sellers originally paid. That means more hard times before markets recover. By Les Christie, CNNMoney.com staff writer Last Updated: August 14, 2008: 3:22 PM EDT

NEW YORK (CNNMoney.com) -- More homeowners than ever are selling at a loss, propelling the real estate market deeper into crisis.

In the 12 months that ended June 30, nearly 25% of all homes sold nationwide fetched less than sellers originally paid, according to real estate Web site Zillow.com.

While the nation's double-digit decline in home prices has been well documented, the new report underscores the economic force of those price declines. Homeowners are walking away with much less in their pocket when they sell. And that affects more than the real estate market.

"It's stunning what's happening out there," said Stan Humphries, Zillow's vice president of data and analytics, who looked at statistics that date back to 1996. "The numbers are the worst we've seen and it's not just the magnitude of the problem but the scope - so many markets are affected."

In Merced, Calif., 63% of homes sold during the past 12 months brought in less than what the owner paid. Prices there have fallen 40% over the past 12 months and 56% from their 2006 peak.

About 63% of sellers in Stockton, Calif., lost money during the same period, 60% in Modesto, Calif., 55% in Las Vegas and 38% in Phoenix.

And the trend has worsened in recent months. In Merced, 74.9% of sellers took a loss when they sold during the three months ended June 30 compared with just 28.7% during the same period in 2007.

The experience of one would-be seller in Cape Coral, Fla., illustrates the kinds of losses sellers are suffering. The homeowner, who asked not to be named, paid \$147,000 in 2003 for a three-bed, two-bath ranch. Prices have dropped there more than 22% in the past 12 months.

He said he made a 10% downpayment and spent big on upgrades, including two renovated baths. The house was appraised at \$279,000 two years ago. Two months ago: \$140,000. He has been trying to sell it for more than a year and has dropped the price to \$129,900.

"It's terrible," he said. "I'm taking a major loss. I'll probably have to bring a check to the closing." The short-sale solution

Many sellers are so underwater that their only solution is a short sale. Elsa Bell, a claims adjuster, bought her Riverside, Calif., house in 2006 for \$330,000, using a no-down-payment loan. In April she put the house on the market for \$275,000, but it hasn't sold.

"The bank is willing to do a short sale, and we have an offer of \$170,000 on the house, but we believe the bank will turn that down," Bell said.

A short sale is when a lender agrees to take less than the amount it is owed on a mortgage and forgives the remaining debt.

For Bell, whatever the sale brings, it's going to be a lot less than what she paid.

The good news is that she should get out of the deal fairly clean. Since she has little invested, she has little to lose. The bad news is that a short sale may mean a hit to her credit score.

Nationwide, nearly a third of all homeowners who bought since 2003 owe more on their homes than the homes are worth. And those that, like Bell, put little or none of their own money into the home purchases, are more likely to try to sell short or simply abandon their homes.

"They hand over their keys and walk away from the homes," says Danielle Babb, a real estate investor, instructor at the University of California Irvine and author of "Finding Foreclosures."

That adds to foreclosure rates. Zillow reported that nearly 15% of U.S. existing home sales during the last 12 months involved foreclosed homes.

That trend will almost surely continue.

In Stockton, Calif., 2006 buyers now owe a median of nearly \$171,000 more than their homes are worth. In Salinas, Calif., 2006 buyers now have median negative equity of \$161,000, and in Merced, the figure is nearly \$160,000. Broader impact

A plethora of sellers taking losses can have a chilling effect on people's lives, says Dean Baker, co-director of the Center for Economic and Policy Research in Washington.

People don't want to sell at a loss, so they put off their plans, whether it's a move for a better job opportunity elsewhere or trading up to a larger home.

"That will delay the [market correction]," said Baker. "It takes time for people to recognize that [these losses] are real."

A quick turnaround is not likely. More than \$200 billion in adjustable rate mortgages are scheduled to reset during the second half of 2008, according to the National Association of Realtors, and loans of all types defaulting at high rates. There is also about 11 months of inventory at the current rate of sales.

"With \$3.9 million unsold homes on the market, prices will have to come down even more before the market stabilizes," said Zillow's Humphries. First Published: August 13, 2008: 1:00 PM EDT Find mortgage rates in your area