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## Bidding Wars Are Emerging on Foreclosures

*Prices Are Generally Falling, But a Few Markets Have Shortages of Midpriced Homes*

By JAMES R. HAGERTY

Falling home prices are starting to ignite bidding wars in a few parts of the U.S. as first-time buyers compete with investors for the same foreclosed properties.

In most of the nation, the supply of unsold homes continues to swamp demand. Home prices in many markets continue to fall, and foreclosures, which slowed in late 2008 as mortgage companies delayed taking action against delinquent borrowers, are picking up again.

But real-estate brokers say multiple offers on certain homes have recently become more common in parts of California and Arizona and the Washington, D.C., and Minneapolis-St. Paul metropolitan areas.

Tamby Leonard of Santa Ana, Calif., southeast of Los Angeles, says she has been outbid four times since January when trying to buy a home for her family of five. The more appealing bank-owned homes in her price range, around \$300,000, tend to be sold quickly to investors who can pay cash. The market for homes in the Santa Ana area in that price range is "blazing hot," says Ed Mixon of Alterra Real Estate, Ms. Leonard's agent.

On Wednesday, the Federal Housing Finance Agency reported that home prices nationwide rose a seasonally adjusted 0.7% in February from January, led by gains on the West Coast. When compared with a year earlier, however, home prices were down 6.5%.

Bidding wars -- common during the housing boom -- had all but disappeared soon after the market peaked about three years ago. Even now, they remain the exception rather than the rule.

The Wall Street Journal's quarterly survey of 28 major metro areas shows that there is still a glut of homes available in most markets. But the glut has shrunk, and some areas are running into shortages of moderately priced homes in middle-class neighborhoods.

Many housing economists expect the market to bottom out gradually over the next couple of years, with some parts of the country stabilizing well before others. California and Washington, D.C., for instance, are likely to recover faster than South Florida, which has an immense glut of vacant condominiums, and the New York City area, which has been hurt by Wall Street's collapse, says Kenneth Rosen, chairman of the Fisher Center for Real Estate at the University of California, Berkeley.

Across the nation, there is still a tug of war between bullish and bearish forces. On the bullish side, falling prices and the lowest mortgage rates since the 1950s have made homes far more affordable,

luring shoppers like Ms. Leonard, who has been renting for years. Adding to the attraction, the U.S. government is offering tax credits for certain people who buy homes before Dec. 1. The credit -- equal to 10% of the purchase price, up to a maximum of \$8,000 -- is available to buyers who haven't owned any other primary residence in the U.S. during the three years before the date of purchase.

On the bearish side, rising unemployment has knocked many people out of the housing market and made those who still have jobs skittish. Even those with secure jobs who want to buy can't always get loans on attractive terms because of today's tightened credit standards.

In addition, the supply of bank-owned homes is expected to grow over the next few months because many mortgage companies have ended moratoriums during which they refrained from proceeding with foreclosures.

The moratoriums artificially reduced the supply of foreclosed homes listed for sale, says Chad Neel, president of LPS Asset Management Solutions Inc. in Westminster, Colo., which sells such properties for banks. Now "there's a flood about to come on the market," Mr. Neel says. Foreclosures are likely to weigh on the market for years as courts and mortgage companies struggle to catch up with huge backlogs of unresolved cases.

Foreclosures, though far above normal levels in most of the country, are heavily concentrated in a few states, including California, Arizona, Nevada, Florida and Michigan. In areas with large numbers of bank-owned homes, buyers are mainly concentrating on those properties. That leaves ordinary homes languishing as owners generally refuse to slash prices enough to compete with banks.

In the Sacramento, Calif., metro area, about two-thirds of all March sales were foreclosures, says Michael Lyon, chief executive of Lyon Real Estate. The supply of foreclosed homes currently listed for sale is enough to last only about a month at the recent sales pace, he calculates. But there are plenty of homes listed for sale that aren't bank-owned, enough to last more than eight months.

In West Sacramento, a buyer represented by Cherie Hunt of Prudential California Realty recently competed against two other bidders for a three-bedroom home built in 2001. Ms. Hunt's buyer won by agreeing to pay about \$220,000, or nearly \$10,000 above the asking price. But that's still way down from \$405,000, the price at which the same home sold in 2005.

"I have 20 buyers looking desperately," says Ms. Hunt.

Frank Borges LLos, owner of FranklyRealty.com, a real-estate brokerage in Arlington, Va., is advising clients that banks favor all-cash bids or offers from people who seem certain to qualify for financing. Sellers may well choose the offer least likely to fall through rather than the highest bid, he says. He and other brokers say banks appear to be deliberately setting asking prices low in some cases to provoke bidding battles.

"There are a lot of buyers who think they can lowball," says Connie Vaughn, an agent at ZipRealty in the Los Angeles area. But in some cases mortgage companies already have cut asking prices enough to generate multiple bids. One of her clients recently prevailed over more than 30 other bidders by offering about \$86,000 -- or \$20,000 above the asking price -- for a four-bedroom house in Adelanto, Calif., that had sold for \$200,000 in 2004.

A mortgage company recently slashed the asking price on a two-family home in Norwich, Conn., to \$73,900 from \$144,900. That price cut prompted five offers that the company is now considering, says Linda Davis of Re/Max Realty Group, the listing agent. She says the price cut was unusually steep but adds, "At some point, [banks] just decide to let it go."

That's encouraging, says Ronald Peltier, chief executive of HomeServices of America Inc. in

Minneapolis, which owns real-estate brokerages in 19 states. "We do need to flush out the distressed inventory," he says, before the rest of the market can stabilize.

One positive trend is affordability. A family earning the national median pretax income of \$52,800 a year needs to spend 25% of that income to buy a median-priced home, down from 44% in mid-2006, according to John Burns, a real-estate consultant in Irvine, Calif. For the Los Angeles metro area, that ratio has dropped to 45% from 102%. In Phoenix, it is down to 19% from 46%.

Among the markets Mr. Burns expects to recover earliest are the metro areas of Washington, D.C.; San Antonio; Raleigh, N.C.; Denver; Sacramento; and San Diego.

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