

Time To Buy?

Cheap rates and foreclosure sales lure house hunters.

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Newsweek Web Exclusive

Falling housing prices spelled opportunity to A. J. Harpold. The Los Angeles-based entertainment assistant, 29, had been looking for a year to buy her first home when she joined 2,300 other potential buyers at a foreclosure auction recently at the L.A. Convention Center. Her target: Lot 14, a 4 BR, 2 BA San Fernando Valley bungalow she'd inspected with her real-estate agent and contractor. As the auctioneer cried the prices and the tuxedo-clad bidders' assistant roamed the aisles, Harpold jumped in at \$330,000. Another bidder topped her. She came back at \$350,000, then \$370,000 before she won at \$385,000 (\$404,000 counting a 5 percent auction fee). "The price was just right," she says, noting that she'd be paying 35 percent less than the home's 2006 sale price of \$665,000.

The housing market is still in the tank, but bargain hunters like Harpold are starting to jump back in. How is that possible? Relatively cheap foreclosure properties and falling interest rates are attracting buyers. Nationally, foreclosures rose 81 percent, according to [RealtyTrac](#), with nearly half of the total coming in just four hard-hit states: Florida, Arizona, Nevada and California. In California, foreclosed properties made up 46 percent of all existing home sales last year, according to [MDA DataQuick](#), and foreclosures were up 181 percent statewide. "The market is being driven by foreclosures and foreclosure products," says James Liptak, president of the California Association of Realtors. Last month in the suburban Inland Empire counties east of L.A., nearly 70 percent of existing home and condo sales were foreclosures.

Despite mortgage rates that hovered at about 5.25 percent, housing prices continued to fall, according to new data released this week. Nationally, the [S&P/Case-Schiller home price index](#) showed a drop—a record 18.2 percent—in the year that ended in November 2008, the latest data available. All 20 cities in the index dropped, but hardest-hit markets led the way down: [Las Vegas plunged 31.6 percent](#); San Francisco 30.8 percent and Los Angeles 26.9 percent for the year. Meanwhile data released Monday by the National Association of Realtors showed a small glimmer of hope: while prices continued to fall, more people bought existing homes in December than the month before as sales of existing homes rose 6.5 percent, led by an impressive 13.6 percent jump in the West.

In California, the new shoppers are bargain hunters with good credit. "You are seeing an entirely new set of buyers," says Jeffrey Frieden, CEO of Real Estate Disposition Corp., the California auction firm that put on the Los Angeles auction. "Some of them are younger families and other first-time buyers, and a lot of them are people who were priced out of the market before." REDC sold 32,000 homes in about 35 states last year, and business is booming. He says the bulk of customers these days are buyers looking to move in. Frieden says that the well-preserved homes go to move-in buyers; investors looking for rentals or teardowns to build apartments are buying what he calls the "rougher assets."

Getting a loan remains problematic, but buyers with good credit are able to get approvals. Harpold, who makes about \$60,000 yearly by splitting time as an assistant to Marty Kudelka, Justin Timberlake's choreographer, as well as to dancer and actress Mayte Garcia, Prince's ex-wife, says banks have told her she has "exceptional credit" with a FICO score of more than 800, which she earned by having plenty of savings and little credit-card debt. She is still working out the details of her loan, but she says she's considering a 30-year mortgage, with no points, at 5.3 percent. She's hoping to keep her down payment low, around 5 percent, "so I can have more liquid cash to fix up the house." (FHA-insured loans still call for as little as 3 percent down payment.)

California needs more motivated and qualified buyers like Harpold. The housing crisis has exacerbated the state's fiscal mess. Falling house prices mean lower property-tax receipts to run local governments and schools, leading to layoffs and cutbacks. Meanwhile state unemployment jumped to 9.3 percent, and the state is collecting less in sales and income taxes. The little money

the state has left is being fought over by legislators and Gov. Arnold Schwarzenegger who are dealing with a budget shortfall of \$42 billion through 2010. Without an agreement, the state could run out of money by late February.

State controller John Chiang recently warned he might have to delay \$3.7 billion in tax refunds and disability payments in February unless state lawmakers reached a viable budget deal by the end of the week—a delay that would hurt many, including families on the brink of foreclosure. Help from Washington may be on the way, though. The House version of the stimulus package, passed Wednesday, contained \$11 billion the feds could rush to Sacramento—and cut the budget shortfall by 25 percent.

Plenty of hurdles remain. Credit is hard to come by for "jumbo" loans above \$417,000 that dominate the more expensive, coastal markets. Rising unemployment may replace fears over falling home prices as a psychological hurdle. "A year ago, the public put off buying out of fears that prices were going to go lower," says the California Realtors' Liptak. "Now they are worried, 'Am I going to have my job six months or a year from now?'"

Back at the REDC auction, buyers were a mix of caution and exuberance. Los Angeles banker Richard Teng had his eye on a downtown condo for his wife, Masako, and their baby daughter. With a household income of about \$200,000, Teng set limits in the mid-300s for his bids on a pair of two-bedroom condos. But when the bidding zoomed past his target price, he bailed. "I'll keep looking," he said. But Walter Tillman, 64, a retired city worker, bought a \$250,000 home in South Los Angeles—sight unseen. The auction firm sent him the wrong catalog, so he didn't see even a picture until he got to the auction. Still, he's aiming to put 20 percent down and get a loan at around 5.7 percent. "That was my first bid at any kind of auction," Tillman says. "We kind of took a chance." The housing market won't stabilize until a lot more buyers think it's smart to take chances, too.

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