

## These homes for sale stink

**Never before have there been so many squalid, dilapidated homes on the market - and they're helping to exaggerate already-plummeting home prices.**

By Les Christie, CNNMoney.com staff writer  
Last Updated: August 23, 2008: 10:29 PM EDT

NEW YORK (CNNMoney.com) -- Mold, maggots and piles of festering trash - no wonder home prices are in freefall.

It's not just the subprime mortgage crisis that's to blame for plummeting home prices. A flood of squalid properties on the market is helping to exaggerate the post-bubble price declines.

**"Part of the reason [home prices are declining](#) is a fundamental deterioration in the housing stock," said Glenn Kelman, CEO of the online, discount broker Redfin. "During the boom, nine out of 10 houses for sale in many markets were in prime condition. Now, for every 10 houses, at least three are dogs."**

**Most of these mutts are foreclosed properties that have been permitted to fall into disrepair by lenders overwhelmed with thousands of vacant homes. If these houses sell at all, they're going for bargain basement prices that are hurting home values throughout the neighborhood.**

"I've never seen so many houses in this condition before," said Ray Anderson of Buyer's Advantage Real Estate in Auburn Calif., near Sacramento. "And I've been in the business 20 years. I've seen bank-owned properties in the past. They were never like this."

Distressed properties usually sell for discounts of 10% to 40% below comparable, well-maintained homes, according to Tom Inserra, executive vice president for Zaiio, an appraisal company that is creating a national database of home values.

**Richard Smith, CEO of Realty, the parent company for Coldwell Banker, Century 21 and Sotheby's International Realty, estimates that homes that are not bank-owned have actually only seen price declines in the low single digits over the past 12 months. That's compared with the 15% price drop recorded by the S&P/Case-Shiller Index for all homes over the same period.**

'Crime scene'

Lori Mize has firsthand experience with horrible homes for sale. She waited for years for prices to come down in her Elk Grove, Calif. home area, just east of Sacramento. With the median home there now selling 30% below the market's peak, Mize thought it was time to buy. But nearly all the homes in her

price range - \$250,000 to \$300,000 - are bank-owned properties, which tend to be in the most beat-up condition.

After looking at a few of them, she was almost ready to give up.

"The first one I saw was the worst home I had ever seen in my life," said the married mother of two young girls. "There were magic-marker messages on the front door saying, 'STAY OUT.' They had poured paint and other stuff on the carpets. There was a lot of trash. I felt like I was at the scene of a crime. I wouldn't let my daughters touch anything."

### **In Florida, another foreclosure hot spot, vacant homes deteriorate rapidly in the high heat and humidity.**

Garbage and food that's left behind fester. "The properties smell," said Eve Alexander, an agent in Orlando. "You find maggots. The swimming pools are green. The lawns dry up. They're eyesores. Neighbors yell at us to water the lawn."

Often the homes have been stripped bare. "All the kitchen appliances, cabinets and countertops, bathroom fixtures, lights are [stolen]," she said.

Others trash the place before they leave, according to Adele Hrovat, a real estate agent with the Buyer's Realty of Las Vegas. "They punch holes in the walls, dump oil on the carpets. The banks are so overwhelmed, they haven't gotten to the point when they send in crews to fix them up," she said.

Indeed, [soaring foreclosures](#) have returned many houses to their lenders, who put them right back on the market - usually as is.

Nationally 18.6% of all homes sold during the three months ended June 30 were foreclosures, compared with just 7% during the same period a year earlier, and 3.1% in 2006, according to the real estate Web site [Zillow.com](#). And that doesn't include short sales, which is when a home is sold for less than the mortgage balance and the bank forgives the unpaid balance and also account for a lot of sales in many areas.

Just a few years ago in Detroit, only one in a hundred listings were foreclosures or short sales, according to agent David Mills of Homebuyer's Realty. Now half of the listings are. Some have been badly damaged and suffered huge drops in value.

"A three-year old home that recently sold for \$660,000 is listed for \$350,000. There's no kitchen, no master bath. The toilet was taken, the tub, cabinets gone."

A growing problem

**With the number of foreclosed properties projected to keep rising, there seems to be no end in sight to falling prices, according to Texas A&M real estate economist Mark Dotzour. Even though many of these dilapidated homes are actually pretty good bargains, Dotzour isn't surprised that more people aren't jumping in. Everyone is reluctant to buy in a declining market.**

**"Once buyers start to feel confident that prices in a given community have stabilized, they'll start buying again," he said.**

For that to happen, the natural population increase will have to absorb all the excess housing inventory, until supply and demand are in balance again.

In the meantime, Congress has allocated \$4 billion for municipalities to rehab derelict foreclosures in an effort to prevent them from dragging down nearby neighborhoods.

But mostly hitting bottom is just waiting for market events to play out and the construction of new homes drops and remains below below the replacement rate for a while.

"Once that inventory is gone, we'll be at the market bottom, and the price trajectory will flatten out," said Dotzour.

Until then, dilapidated homes will continue to aggravate the steep price drops being recorded throughout the nation.

**Courtesy of JB Goodwin**