

Open house, anyone? 1 in 9 homes sit empty

By Haya El Nasser, USA TODAY

CHANDLER, Ariz. — The white notice taped to the front window of a luxury home in the Vasaro subdivision is a telltale sign.

"Bank-owned," says real estate agent John Groves, without skipping a beat.

There are other clues. Dirt where a lush lawn should be. Vacant lots on either side. And the sale price: \$729,900 for a never-lived-in, 5,500-square-foot, five-bedroom, 3.5-bath custom home that about a year ago was listed for more than \$1.2 million.

In a nearby subdivision of this community of 246,000, one of the largest suburbs in metropolitan Phoenix, a foreclosure sign in the front yard of a more modest house signals yet another financially troubled home needing a buyer.

Multiply that scenario hundreds of thousands of times. From Maine to Hawaii, millions of new McMansions, post-World War II bungalows, modern downtown lofts, exurban town homes and inner-city row houses sit empty. This unprecedented glut of vacant homes — one in nine homes across the USA, according to the Census Bureau — will change the real estate landscape for years.

Already, rock-bottom prices in the hardest-hit markets are attracting first-time home buyers who could not afford a home during boom times. Some areas may see real estate values stabilize by the end of this year, as buyers seeking bargains begin to reduce the backlog of homes for sale. At the same time, the availability of rental housing will widen, potentially pushing down the cost of renting.

"We overproduced by 1 million new units," says Edward Glaeser, economist at Harvard University. "Now we have to work our way through the stock."

What happens to the 14 million empty houses, condominiums and apartments and the 9.4 million that are for sale? How long will it take to absorb this massive and unprecedented oversupply of housing?

"Two more years," Glaeser says. His is one of the more optimistic estimates. Projections by housing analysts range from as early as this year in some areas to as late as 2014 in others.

"From a pure need for shelter, we don't need more homes built for the next several years," says John Burns, head of John Burns Real Estate Consulting in Irvine, Calif., who believes the recovery might take five years in some areas. "We clearly overbuilt."

Demand slackens

The nation's housing stock increased by 8.65 million units from 2002 to 2007 — a time when the number of households in the USA increased by only 6.7 million. Even after taking into account the need to replace homes torn down or lost to fire and other disasters, there is an excess of 1.3 million units, not including vacation homes.

The nation adds about 1.5 million households every year, but that number is shrinking. The recession, delayed marriage and a slowdown in immigration all have reduced the demand for more housing.

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The bad economy forces many young people to live at home longer if they're single. Sharing a home with friends or relatives may be the only affordable option for many who can't keep up with house payments.

"When you have an economic crisis, you can move in with Mom and Dad, take in roommates or move to Mexico, but I don't think there's much household formation," Burns says.

"The highest rate of increase in homeownership (typically) is in ages 30-44, and there are fewer of them," says William Lucy, professor of urban and environmental planning at the University of Virginia. "Those are the likely childbearing years."

Since 2004, the number of households in that age group has dropped by 1.6 million.

The overall U.S. population, however, is still expected to grow by almost 100 million, to 400 million, by 2040 because of strong fertility rates and continued immigration. That will fuel demand for more housing.

Today, homes are still being built — about 700,000 this year, says Arthur C. Nelson, director of the University of Utah's Metropolitan Research Center.

The U.S. will need all this housing at some point, says Robert Lang, head of the Metropolitan Institute at Virginia Tech. "Population is still growing, and sooner or later, you'll want to move out of relatives' basements."

Burns fears that some working-class subdivisions on the far edge of metropolitan areas will turn into "exurban ghettos" as prices drop and many units are turned over to renters.

The Department of Housing and Urban Development is doling out \$731 million to 48 states to buy and rehabilitate vacant, foreclosed homes and help low- to moderate-income families buy them.

Regional differences

Susan Wynalek, 53, hasn't witnessed the consequences of the real estate collapse firsthand — only on the news. She doesn't see foreclosure signs or many "For Sale" signs in Freehold, N.J., the affluent town in the far reaches of the New York suburbs, where she lives.

"We bought our house 3½ years ago, and I imagine on paper we're losing money," she says. "But we're staying put."

Just as the housing crisis has hit some areas more brutally than others, the recovery will reach some before others.

"The geography of this is important," says Lucy, who has analyzed foreclosures.

More than half of foreclosures last year were filed in just 35 counties across 12 states.

After analyzing government housing data and estimates and projections by Woods & Poole Economics, an independent economic forecaster, Nelson predicts that housing markets in the West and South — regions hardest hit by foreclosures — will start to bounce back later this year and the first half of 2010. The Northeast and Midwest will have the slowest comeback — possibly beyond 2012, he says.

Nelson adds a cautionary note: "Keep in mind that 'recovery' does not mean 'happy days are here again' " but "that there is sufficient pent-up demand for new housing as to warrant new construction."

Prices won't bounce back much, at least initially. When the recovery begins, homes will be selling at the lowest prices this decade, Nelson says.

Opportunities for some

There's an upside to the nation's housing glut, fed by the crush of foreclosures: Housing gets more affordable.

More than 2.3 million homes went into foreclosure last year. There were 290,000 filings in February alone, up 6% from January.

The number of homes for sale in 2007 soared to 10 million but inched back to 9.4 million in 2008, as construction of new homes slowed and prices sank, Lucy says. That's still almost 40% higher than 10 years earlier, when fewer than 7 million homes were for sale.

Sales of existing homes rose 5.1% to 4.72 million from January to February — the largest sales jump since July 2003, the National Association of Realtors reports.

The surprising increase was driven by buyers taking advantage of big discounts on foreclosed homes. The median sale price was \$165,400, down 15.5% from a year earlier and down 28% from their peak in July 2006.

First-time home buyers who could not break into the housing market in the boom years are prime buyers now that prices are at or near bottom and mortgage interest rates are below 5%.

Buyers aren't the only ones benefiting.

Business is soaring for Kennedy Wilson Auction Group, based in Beverly Hills. The company sold more than 1,000 homes at auction last year, a jump from the 120 to 175 homes it auctioned five years ago. The firm has conducted auctions in new luxury developments in Scottsdale, Ariz., Seattle and Southern California.

President Rhett Winchell says that 90% of his customers buy to live in the homes. The rest are investors.

"The format allows first-time home buyers to buy the house of their dreams," he says. "People buying today are getting huge discounts over a year ago. ... It's all about price."

His company auctions the units to help developers sell them fast. A unit that would have been on the market for \$500,000 sells at auction for between \$350,000 and \$400,000.

Auctions that sell foreclosed homes — old, new, small, big, homes that banks want to get off their books — appeal to investors who are betting on a turnaround and can get rental income in the meantime.

Another side effect on housing: The demand for rentals has risen since the housing market tanked. Apartments that had been converted to condominiums at the peak of the market have reverted to apartments.

When someone loses a home for failure to make the payments, "they will either most likely rent a single-family home or rent an apartment, but they're not likely to go buy another home," says Elliott Pollack, CEO of Elliott D. Pollack & Co., a real estate and economic consulting firm in Scottsdale.

Tighter credit and stricter mortgage qualifications are likely to push homeownership down from the record 67% it reached this decade to about 63%, Nelson says. "Half of new housing will have to be rental," he says.

Hints of a turnaround

Here in Maricopa County, Ariz., the number of foreclosures ranked 24th in the USA last year — not far behind areas such as Riverside, Calif., Las Vegas and Fort Myers, Fla.

In Maricopa County, there were 117,000 foreclosure actions or one for every 13 households, according to real estate listing firm RealtyTrac. That's six times the number recorded in 2006.

It's not the first real-estate meltdown for Phoenix and suburbs such as Chandler. The savings-and-loan crisis in the late 1980s and early 1990s that resulted in the failure of more than 700 savings-and-loan associations hit this region hard and halted development for a while. The government formed the Resolution Trust Corporation (RTC) to liquidate real estate and mortgage loans held by the savings and loans.

The S&L crisis, however, was less sweeping than the current mess, local officials and housing analysts say. It affected commercial construction and developers rather than homeowners.

At the time, many large, master-planned communities already had streets, sewer and water lines and other infrastructure in place but only a half-dozen homes built.

As soon as the RTC took over, developers bought the ready-made subdivisions and started putting up homes. Credit was still available through banks and other lenders.

"The S&L stuff wasn't people moving out of houses," says Jeff Kurtz, Chandler's acting planning and development director. "It was just that growth stopped."

"It was nothing compared to now," former Chandler mayor Jerry Brooks says.

In suburban Phoenix, however, signs of life are sprouting, says real estate agent Groves, 53.

One of his clients is relocating from Southern California and wants to buy two homes, one to live in and one for investment.

Another client, a local buyer, is ready to pay cash for a house he can rent and resell later.

At a recent get-together with friends and colleagues, "absolutely every Realtor at the table was telling stories of how they've got more buyers than they can handle," Groves says.

"It tells me that prices have reached the point where people perceive value."

Courtesy of JB Goodwin