

Flippers flop as housing market cools

By RYAN NAKASHIMA, AP Business Writer 1 hour, 35 minutes ago

In the rampant real estate speculation of the Las Vegas valley three years ago, people lined up outside Pulte Homes sales offices overnight as if they were waiting for the release of the latest video game console or hot new movie.

Having seen his house in an upscale part of suburban Henderson, Nev. jump \$200,000 in value in 18 months, Sam Schwartz felt he couldn't miss any part of the boom.

He spent the night in the parking lot with TV, snacks and drinks, along with about a hundred other people.

Schwartz intended to buy a new home and then quickly sell it within the year — for a huge profit. Most people waiting were flippers just like him, he said.

"We had seen real evidence of what was possible in this crazy, inflated market, and we just wanted to get a piece of that investment equity," Schwartz said.

But when home prices unexpectedly took a backward step, many investors seeking to cash in quickly were left "upside-down," or owing more on their mortgages than what their homes were worth.

The result was a glut of homes in the marketplace, communities spotted with empty houses and for sale signs — and a **foreclosure rate in Nevada that leads the nation** as owners unable to sell became saddled with unbearable debt payments.

Foreclosure filings across the United States rose 47 percent last month from a year ago to 149,150 — one for every 775 households, according to statistics from Realty Trac Inc., a foreclosure listing service. And for the third straight month, Nevada's foreclosure rate led the nation when it rose 220 percent from a year earlier to 4,738 filings, or one in every 183 households.

In Clark County, which encompasses Las Vegas, one of every 30 homes began the process toward foreclosure last year.

The day Schwartz reserved his home, the sales staff was raising prices \$20,000 after every fifth buyer came inside. The \$500,000 house he and his wife were eyeing had shot up to \$540,000 by the time they sat down. Somehow, it still seemed like a good deal.

"Everybody was thinking, 'Hey it's not the end of the world, because the homes across town are selling for \$720,000. We have almost \$200,000 in equity in the house and it isn't even built yet,'" Schwartz said.

He and his wife put down \$5,000 on a home that would end up costing \$560,000 with upgrades.

While the Schwartzes were able to cancel before closing on a property that suddenly was worth only \$490,000 — and recoup their deposit on a legal technicality — others were less fortunate.

Schwartz, a 44-year-old life coach, said he "narrowly escaped financial disaster." But the effects of the housing crunch would reverberate for years, he said, something he expects to see among the clients he coaches to succeed in their lives and careers.

"There's going to be a lot of depression, a lot of anger. A lot drinking, gambling, and desperate stuff going on."

More than other states hit by the mortgage lending crunch, the high foreclosure rate in Nevada, California and Florida was driven by speculation, said Rick Sharga, vice president of marketing for Realty Trac.

"It was a combustible mix of risky loans and risky real estate deals," he said.

Russ Valone, the chief executive of research firm MarketPointe Realty Advisors, said speculators in San Diego were putting deposits on downtown condo units under construction, assuming they could sell them at a profit when they were finished.

"There were guys out there that were rolling the dice just as if they were going to Las Vegas," Valone said.

When the market slowed, many buyers forfeited their deposits, or let their properties get repossessed by the banks. As a result, the inventory of unoccupied condo units downtown since early 2005 has soared fivefold, he said.

New home builders are slowing down the pace of new projects in Las Vegas and are giving agents commissions of up to 12 percent and up to \$100,000 in upgrades such as pools, granite countertops and appliances.

"The speculators completely dried up," said Paul Murad, a real estate observer and author of "Manhattanizing Las Vegas."

In Miami, the rush of condo building and speculative buying has slowed to a crawl, said real estate agent Penni Hurley. Florida's foreclosure filings rose 54 percent from a year ago to 14,303 in March, or one filing for every 511 households.

"The market was on steroids and now it's going through a much-needed correction," Hurley said.

With forecasts of a nationwide 1 percent home price decline this year, there's no way to flip for a profit now, said Jay Brinkmann, vice president of research and economics with the Mortgage Bankers Association.

"One would have to logically assume that (flippers) are no longer in the market," he said.

But some are still feeling the pain.

Jason Beaver, a Sunnyvale, Calif.-based Apple Inc. programmer, got caught up in the talk of the hot housing market from friends who bought multiple homes in Las Vegas and made a killing.

His name was drawn in a buyers' lottery in the Solera subdivision and he put \$35,300 down on a \$353,000 home in February 2004. The community is restricted to people age 55 or older; the 37-year-old Beaver had no intention of moving in.

That summer, the housing market began to soften. He nervously put the house on the market for a break-even price the same day escrow closed. He got no offers.

A tight market had suddenly become flush with resale homes as investors sought to cash out. Pulte was one of several builders to slash new home prices, in some cases by as much as \$80,000 in a single day. Beaver and others are suing, but the company has said it was simply reacting to new conditions in an overheated market.

Beaver has been renting the home out for about a \$1,000 a month, despite monthly expenses around \$2,000.

And the supply of available homes is growing.

In March, the number of resale listings for single family homes, condos and townhouses in the Las Vegas valley grew 30 percent from a year ago to 27,282, according to the Greater Las Vegas Association of Realtors. Sales and the value of homes sold were both down 38 percent from a year ago. About half the homes available have been on the market for more than two months.

"Two years ago, you'd set a price that looked right and you'd get offers that were \$20,000, \$30,000, \$40,000 over your list price. You have to be more realistic today," said Devin Reiss, president of the Realtors association.

With Nevada's fast-growing population and an estimated 8,000 net new residents coming to Las Vegas every month, experts predict the glut of housing will be cleared in six months to more than a year.

State lawmakers are considering a range of bills that clamp down on the easy mortgage lending that helped heat up the market, including making it a crime for lenders to issue mortgages with little or no verification of a borrower's ability to pay.

"The biggest loan I ever saw, a person bought a \$1 million property and only had to come up with \$1,000 in cash," said Scott Bice, the state's commissioner of mortgage lending.

"I don't think anything will ever prevent speculation," he said, but added that new regulations and tighter credit requirements by lenders will eventually return the market to the good old days: "When it takes good credit and money in a transaction to close it."

For those caught up in the frenzy of a few years ago, the changes come too little, too late.

Beaver figures he has spent \$50,000 on his investment home, and will have to come up with \$30,000 more to pay off the mortgage after he sells it at a loss.

While he's not completely sworn off real estate investing, Beaver said next time he'll try a more traditional approach — to buy and hold for the long term.

"The fast-growth, make-a-quick-buck real estate investment, I don't think I'll try again," he said.

Courtesy of JB Goodwin