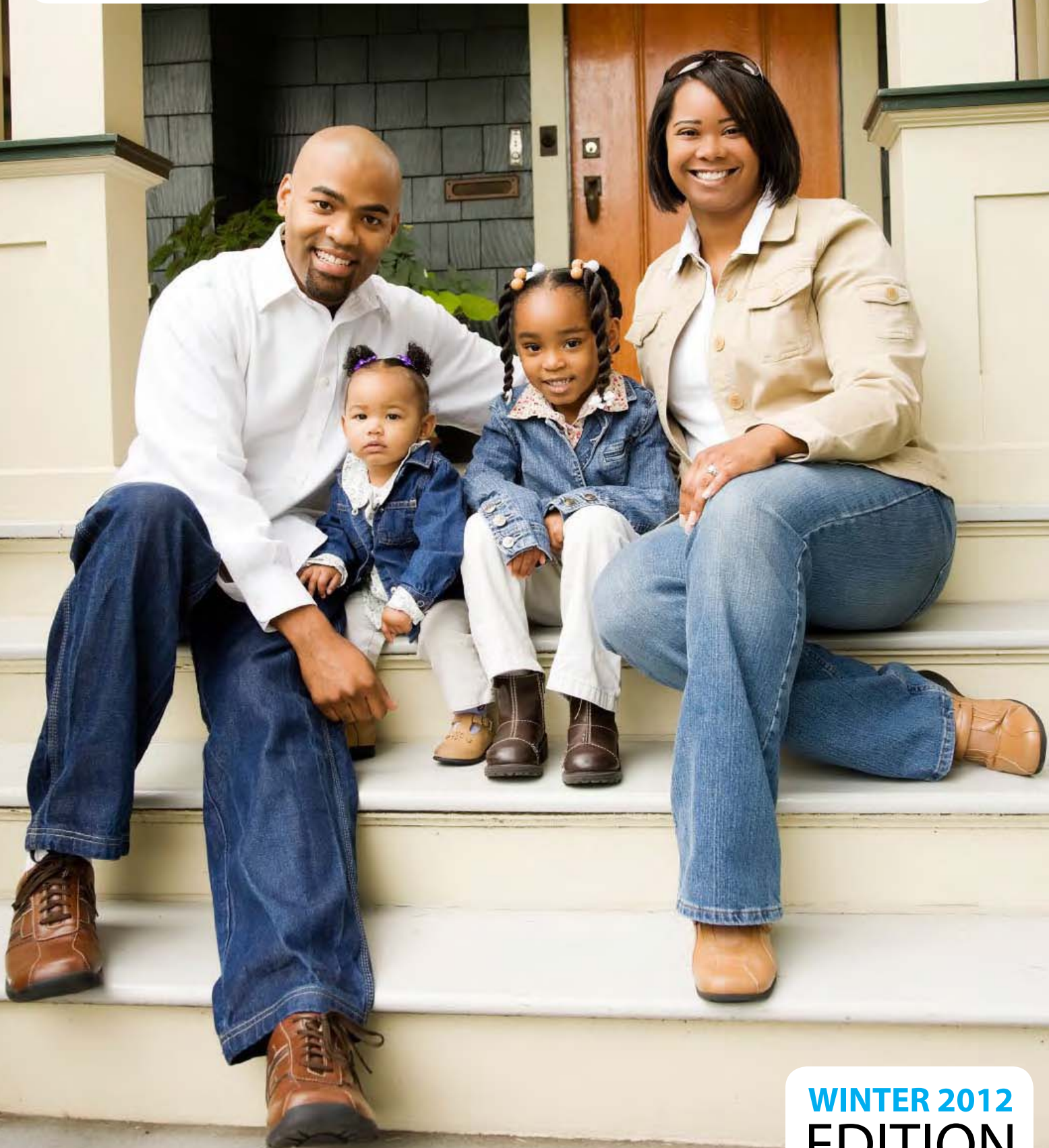


# THINGS TO CONSIDER IF YOU ARE **SELLING** YOUR HOUSE



**WINTER 2012**  
**EDITION**



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# HOUSE PRICES: WHERE THEY WILL BE IN THE SPRING

Many sellers want to wait until the spring before putting their house on the market. They believe that they will see more potential buyers and as a result, will get a higher price. In the northern part of the country, they might not want people walking through the snow and then into their house.

In a normal real estate market, this may make sense. However, this market has been anything but normal. This spring will also see some abnormalities. The biggest difference will be the direction prices will take.

In years past, the spring market would favor the seller because increased demand would outpace any increase in supply: the number of houses coming onto the market would not be as great as the number of buyers newly entering the market. In most situations, when demand is greater than supply, prices increase.

The reason this spring will be different is that the supply of homes coming to the market will be dramatically impacted by foreclosure properties being released by the banks. Many believe this increase in inventory will far outweigh buyer demand. In situations where supply is greater than demand, prices decrease.





## WILL THIS ACTUALLY HAPPEN?

RealtyTrac, a firm that monitors foreclosure activity, explained:

*“U.S. foreclosure activity has been mired down since October of 2010, when the robo-signing controversy sparked a flurry of investigations into lender foreclosure procedures and paper work. While foreclosure activity has registered well below levels from a year ago, there is evidence that this temporary downward trend is about to change direction, with foreclosure activity slowly beginning to ramp back up.”*

**This will impact prices.**

## WHAT DO EXPERTS BELIEVE THE IMPACT WILL BE?

Here are the pricing projections by several major entities:

- Zillow believes we will not see a bottom in prices until the end of the first quarter of 2012.
- Standard & Poors thinks prices will drop 5% in the next few months.
- JP Morgan Chase believes prices will depreciate 6 to 7% over the next six months.
- Barclay’s says prices will fall 7% by the end of the first quarter of 2012.

**Waiting until the spring may not make sense this year.**

Michael Childs

843-602-7644

Watermark Real Estate Group

# UNDERSTANDING THE IMPACT OF SHADOW INVENTORY

Standard & Poors is a company that studies shadow inventory and its impact on the housing market.

## WHAT IS SHADOW INVENTORY?

It is an inventory of houses that will come to market as distressed properties at a discounted price. Each of the data companies define shadow inventory in slightly different ways.

Standard & Poors defines it this way:

*"We include in the shadow inventory all outstanding properties for which borrowers are 90 days or more delinquent on their mortgage payments, properties in foreclosure, and properties that are real estate owned (REO)"... Our calculation of the months to clear the shadow inventory is the ratio of the total volume of distressed loans to the six-month moving average of liquidations.*

(Continued on the next page)





## IS THIS INVENTORY INCREASING?

Their most recent report shows that shadow inventory is decreasing in many parts of the country as banks are starting to release distressed properties to the market.

From the report:

*"We estimate that it will take 45 months to clear the national shadow inventory. This is seven months below our peak estimate but three months longer than our estimate a year ago. Twelve of the top 20 MSA's recorded declines in months-to-clear during the quarter, while eight reported increases."*

## WHAT IMPACT WILL SHADOW INVENTORY HAVE ON REAL ESTATE?

One of two things will happen:

- 1. The inventory will continue to mount and be a hindrance to a housing recovery.**
- 2. The inventory will be placed on the market and impact prices.**

As the report states:

*"Despite the recent stability of our months-to-clear estimates and liquidation rates, these distressed loans continue to loom over the housing market and threaten to further depress home prices. Though fewer additional loans are currently defaulting, the overall volume of distressed loans remains huge. Low liquidation rates over the past two years allowed the shadow inventory to grow as distressed homes have remained tied up in foreclosure proceedings.*

*The shadow inventory will continue to jeopardize the housing market's recovery until servicers are able to improve liquidation times. However, if and when that happens, an influx of homes will likely enter the market, increasing supply and driving prices down further."*

It is very likely that this inventory will come to market, impacting prices now, but bringing about a housing recovery in a much shorter period of time.

# THINGS TO CONSIDER BEFORE RENTING A HOUSE YOU CAN'T SELL

In this difficult housing market, more and more homeowners are considering renting their house instead of adjusting the price. We strongly believe that residential real estate is a great investment and therefore, can understand this thinking. However, if you have no desire to actually become an educated investor in this sector, you may be headed for more trouble than you were looking for.

**Before renting your house**, you should take the following steps to make sure this is the right course of action for you and your family.

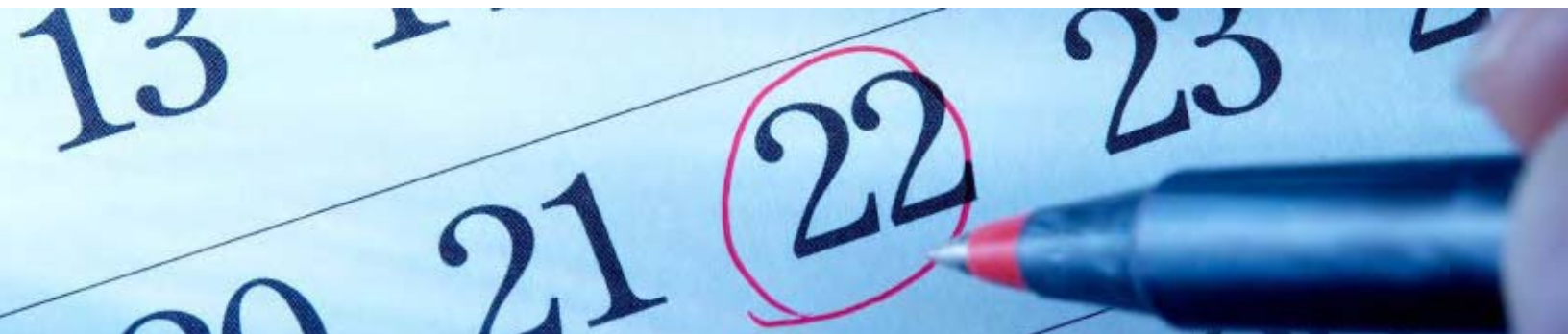
## SET UP AN APPOINTMENT WITH AN EVICTION ATTORNEY

People rent out their houses assuming that every tenant will pay the rent every month. You must realize, because of the current economy, there are millions of people not paying their mortgage. There is a chance you may rent to someone who at some point can't (or simply won't) pay you the rent. Understand what the legal challenges of eviction could potentially be before deciding to rent your house.

## INTERVIEW PROPERTY MANAGERS

If you are not a full-time investor, hire a professional to handle the property. You need someone to find a qualified tenant, collect the rent and manage the problems. You don't want to have to make collection calls. What would you say if a tenant told you that they had enough money to either buy food for their children or pay you your rent, but not both? You need a person experienced with these situations to help.

You also don't want to receive calls at all hours of the day and night regarding maintenance issues or challenges a neighbor may be creating for your tenant.





## CREATE AN HONEST BUDGET

Sure, you will receive revenue in the form of rent. However, don't forget you will also have expenses. Some of the expenses you should consider:

- **Mortgage Payment** (unless there is no mortgage on the house you will rent out)
- **Property Taxes**
- **Maintenance Expenses** such as repairing or replacing: roof, heating/air conditioning unit, appliances, etc.
- **Insurance** – Check with your insurance company who may suggest or demand that you increase your liability coverage.

Again, renting residential real estate historically is a great investment. However, it is not without its challenges. Make sure you have decided that you want to rent the house because you want to be an investor, not because it looks like an easier way out than selling the house.

# SHORT SALES: A DIGNIFIED SOLUTION FOR MANY FAMILIES

We are truly excited that the banks are beginning to see that a short sale in many cases is a good alternative to foreclosing on a property. It makes more sense to sell the property at a higher price. At the same time, the banks are creating less vacant Real Estate Owned (foreclosures owned by banks) which have blighted neighborhoods and negatively impacted surrounding house values for the last several years.

It is also satisfying that so many of our fellow real estate professionals are taking the time to get properly trained to facilitate these transactions to a successful closing. We don't want to speak to the financial aspects of the surge in short sales. Instead, we want to address the impact it has on the families living in these homes. They have found themselves in over their heads. In many cases, they can't afford the mortgage and are trapped - unable to sell because the mortgage exceeds the home's value. They may believe that they are left with only one alternative - allow the home to proceed to foreclosure.





Let's realize the consequences of this decision for the family. The day will come that someone in an official capacity knocks on the door and notifies the family it is being evicted immediately. No matter how well they have prepared, at that moment, spouses look to each other in embarrassment. There is a big difference between imagining how this moment might feel and actually experiencing it.

And, in so many cases, there are children involved. The official stands there as a mother or father gets on a knee and explains to their son or daughter that they must go pack up some of their toys and belongings in a hurry because the family must leave - now!

The short sale process avoids these situations. The family plans around a set closing date. The children are made aware of the move months in advance and the parents have time to lessen the pain of that move.

Short sales make good financial sense for all involved. They also allow families to exit an extremely difficult situation - WITH DIGNITY.

# GREAT REASONS TO SELL YOUR HOUSE TODAY

You may be asking yourself, “Is it time to sell my house?” The answer to that question is based on what your families’ goals are. If you don’t need or want to move for a few years it might make sense to wait for the housing industry to recover and prices to appreciate. However, if you wish to move within the next six to eighteen months, it is probably better to sell sooner rather than later. Here are some reasons why:

## **DISTRESSED PROPERTIES WILL IMPACT PRICES**

Distressed properties (foreclosures and short sales) on the market will increase this winter and spring. This will put tremendous downward pressure on prices for at least the next 12-18 months. Get your house sold before they become your competition.

## **MORTGAGES WILL BECOME MORE DIFFICULT TO ATTAIN**

Lending standards are continuing to tighten. There is legislation currently being considered that will make it even harder for buyers to qualify. Less demand will equate to lower prices.

## **IT IS THE PERFECT TIME TO MOVE-UP**

With prices where they are and interest rates at all time lows, there may have never been a better time to move-up into your dream home. If you move into a more desirable home now, you will be in position to gain larger equity as prices eventually appreciate.

## **YOU GET TO MOVE ON WITH YOUR LIFE**

Probably the most important reason to sell is so you can get on with your life. Do not allow a less-than-stellar housing market to prevent you from reaching your goals as an individual or as a family. Think about the reasons you are thinking about moving. Are these reasons really important to you? If you have to take less than you were originally hoping to get for your house, your family has a question to ask each other: Is the dollar difference in sales price worth putting off our plans? Only you and your family know the answer to that question.

