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Short sales soar while foreclosure sales slacken

By [Buck Wargo \(contact\)](#), In Business reporter

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Las Vegas and the state may be changing from the nation's foreclosure capital to a housing market dominated by short sales.

In the last four months of 2009, the number of foreclosure sales has dropped and lenders have consented in greater numbers to short sales — in which they allow homes to be sold for less than the owner owes on the mortgage. That trend should continue in 2010, according to Realtors and housing analysts.

The statistics prove that as well.

Research firm Applied Analysis reported fewer than 300 short sales a month on average in the first four months of 2009 based on homes sold on the Multiple Listing Service. In May the numbers slowly started increasing, and over the last two months, short sales have averaged close to 700 a month. January has similar numbers, said Brian Gordon, Applied Analysis principal.

Short sales averaged about 7 percent to 8 percent of total existing-home closings in early 2009, but averaged 22 percent of the market by the end of the year and in early January, he said.

SalesTraq, another research firm, reported that foreclosures made up 50 percent of existing-home closings in 2009 compared with 67 percent to 70 percent in 2008. The reason is short sales made up a bigger chunk of sales.

“We have seen a decrease in foreclosure activity in Las Vegas, which was puzzling to us,” said Daren Bloomquist, marketing manager for California-based RealtyTrac, which monitors foreclosures in Nevada. “Maybe Las Vegas has become somewhat of a test ground for streamlining short sales. It sounds like it could have an impact in Las Vegas.”

Traditionally, a short sale has been a time-consuming process that for much of the housing downturn has been unsuccessful as lenders prefer homes going into foreclosure. Now, lenders are trying to streamline the process.

One analysts said only one in four short-sale attempts were successful in 2009.

Short sales make financial sense for lenders, analysts said.

In Las Vegas, banks make \$80 per square foot on foreclosures but \$130 per square foot on average in short sales, said Steve Bottfeld, executive vice president of Marketing Solutions.

“I think the bottom line is that short sales ultimately replace foreclosures because of the financial impact on the financial institutions,” Bottfeld said. “The banks are going to look at it differently and opt for more short sales.”

Analysts said short sales will get a boost in 2010 because of a push by the federal government. The Treasury Department is offering incentives on short sales by providing a \$2,500 subsidy, \$1,000 to the servicer and \$1,500 to the seller for moving expenses. In addition, investors can get \$1,000 by allowing subordinate lenders to get \$3,000 in proceeds from the sale. The program is effective April 5, but servicers can implement it earlier.

Dennis Smith, president of Home Builders Research, said short sales will be the “story of the year” because of the effect they will have on the housing market.

“It should cause prices to increase a little,” Smith said. “We have seen prices flatten the last five to seven months, and one reason is because we haven’t been flooded with all these foreclosures. They are doing more short sales.”

John Mechem, a spokesman for the Mortgage Bankers Association, said what is happening in Las Vegas is occurring across the country. It is costly for lenders to go through the legal process of foreclosing, and he added that homes can be damaged over time. The return is better on short sale, he said.

Lenders just want to get the home back on the market as soon as possible, Mechem said. “They are not in the business of being landlords or property maintenance.”

Lenders’ willingness to approve more short sales has been a relief to Realtors who have been frustrated because they have worked on deals for more than a year in some cases, only to have the deal rejected in the end.

Linda Rheinberger, president of the Nevada Association of Realtors, said it appears short sales are the future as banks and asset managers catch on ways to avoid letting homes go into foreclosure.

“There is a lot of political and social pressure on banks, especially those that received stimulus money, and they have been highly encouraged to do this,” Rheinberger said.

Some analysts have suggested that the push for more short sales could lead to lenders’ willingness to reduce principal from mortgages and allow homeowners to stay in their home.

Robyn Yates, broker/owner of Windermere Real Estate, said with more than 75 percent of homeowners underwater — they owe more on their homes than the homes are worth — it’s unlikely lenders will agree to that.

“I don’t know how they can do that,” Yates said. “If you think about it, what would happen if 77 percent of homeowners went to the banks and asked their principal to be reduced?”

Bloomquist contends that short sales could be a better way to address the foreclosure problem than modifications because it includes a new borrower with a new loan that is based on reasonable lending standards, Bloomquist said.

“That could be much better for long-term success,” he said.

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