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Let the Buyer Seeking Bargains on Foreclosed Homes Beware

Lowball Offers on Bank-Owned Properties Won't Seal the Deal

BY NED RANDOLPH

Bank-owned homes recycling back into the market after foreclosure are being priced well below market value in order to solicit multiple bids, which in some cases exceed their original asking price, agents and analysts say.

Brian Yui, chief executive officer of **HouseRebate.com**, which tracks listings of bank-owned properties — known as real estate owned, or REO, properties — says banks are underpricing properties and selling them much quicker than traditional home sales.

36%

May home sales in San Diego County that were bank-owned properties

“The banks appear to be getting fair market value for their homes,” he said. “For buyers thinking to lowball REO listings, they must think again as there are other buyers out there willing to pay (fair market value).”

Foreclosures are skyrocketing as borrowers default on mortgages in record numbers — in many cases walking away from homes because their mortgages cost more than the homes are now worth.

Of all the home sales in San Diego County in May, 36 percent were bank-owned properties — homes that had been foreclosed by lenders in the prior 12 months and then resold, according to **DataQuick Information Systems** of San Diego.

Many of them sold above asking price, says Yui, adding that he noticed the trend while looking up comparable prices in Escondido of a bank-owned house he was considering buying for himself.

Finding Closure

In that one search, he found 10 properties — seven of them REOs — that closed above their listing price.

“I was thinking, ‘I wonder what kind of discount I could get off the list price,’” he said. “I ran the comps, and I was surprised to see that there were many overbid situations versus discounts; the discount was already in the list price.”

Yui says 400 of the 2,300 properties that sold in the 30 days ending June 26 were overbid. In the like period of 2007, 160 properties out of 2,500 sold were overbid.

Yui says that most of the overbidding is taking place on REO listings under \$500,000 in areas such as Escondido, Oceanside, East County and South Bay

— parts of San Diego County where the subprime mortgage crisis has hit hardest.

In the South Bay, Yui found 140 sales of REO properties in the 30 days ending June 26 — and one-third of them sold above their asking price.

Their average time on the market was also a mere 17 days, he says. The average time a home spent listed last month was 80 days for a detached home and 74 days for a condominium, according to the **Sandicor Inc.** regional Multiple Listing Service.

“This is a real trend. There is a strong demand for well priced properties,” Yui said. “This is the classic supply and demand theory.”

He added, “My agent Steve Cazel is in the trenches each day trying to get his buyer the deal versus the sometimes 20 other bidders.”

Multiple Bids

Agents and brokers have been saying for weeks that lower-end properties, which are most impacted by the subprime mortgage woes, are receiving multiple bids by investors and homebuyers. Lower-end properties in San Diego are considered below the former federal conforming loan limit of \$417,000.

“They’re being bid up, and buyers do not understand that,” said Liz Piccolomini, manager of Coldwell Banker Real Estate LLC’s downtown and Mission Valley offices. “They’re pricing in a certain place and getting 15 offers. They end up paying what ‘Mr. and Mrs. Seller’ wanted to sell at anyway.”

Though a buyer’s market, shoppers have to understand that there are lots of people looking for bargains, she says.

Locally, home prices in April dropped to their lowest level since October 2003, according to the S&P/Case-Shiller index released June 24. The median local home price in May was \$380,000, a 23 percent decline on the year, DataQuick Information Systems says.