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Negative equity 2nd lowest in U.S.

Posted by John Rebchook
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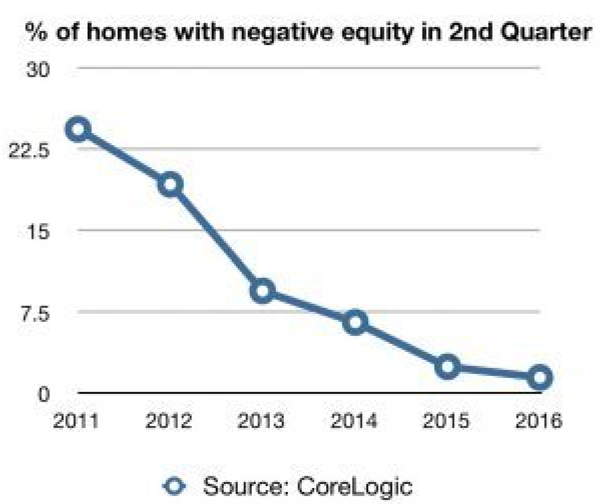
Negative equity in the Denver area, 2nd lowest in U.S.

Only San Francisco has smaller percentage of homes that are underwater.

Denver has made a remarkable recovery in five years.



A snapshot of negative equity in the Denver area in the second quarter of 2011-2016. Source: CoreLogic.

Underwater homes are a thing of the past for Denver-area homeowners.

Only 1.5 percent of the homes in the Denver area with mortgages are saddled with negative equity, according to a second-quarter report released on Thursday by CoreLogic.

Negative equity is when a home is worth less than its mortgage. A home with negative equity is often described as being underwater or upside down on their mortgage. During the Great Recession, the Denver area was hammered by foreclosures and short sales because there were tens of thousands of homes with negative equity.

Today, there are fewer than 10,000 homes with negative equity in the Denver area, according to CoreLogic.

The Denver-Aurora-Lakewood metropolitan statistical area had the second lowest percentage of homes with negative equity of major markets in the U.S., according to CoreLogic, which owns and publishes the closely followed Case-Shiller Index.

San Francisco, where a mere 0.6 percent of the homes have negative equity, was the only metropolitan area with a lower percentage of homes under water than in the Denver area.

However, equity-rich homeowners in the Denver area are not taking cashing out of the value in their homes by putting them on the market.

There were only 7,327 listings on the market last month, according to the Denver Metro Association of Realtors.

That is a record low number of homes on the market in an August.

“This data confirms that negative equity is not what’s keeping Denver metro homeowners from listing their homes for sale,” said Lane Hornung, CEO of 8z Real Estate.

“So why are so few choosing to sell? Why don’t we see more listings coming to market? The market could certainly handle more inventory,” Hornung said.

He said one hypothesis is that about two thirds of home equity nationwide is controlled by Baby Boomers aged 55 and over.

“And about two thirds of those Boomers are choosing to age in place and not move according to a Freddie Mac survey,” Hornung said.

“End result- no listings for sale. As usual, the Boomers are in control,” Hornung said.

The Denver area has come a long way.

There were only 9,686 homes underwater in the second quarter in the Denver area, compared with 154,311 homes with negative equity five years ago, according to CoreLogic.

In the second quarter of 2011, 24.4 percent of the homes in the Denver area were underwater.

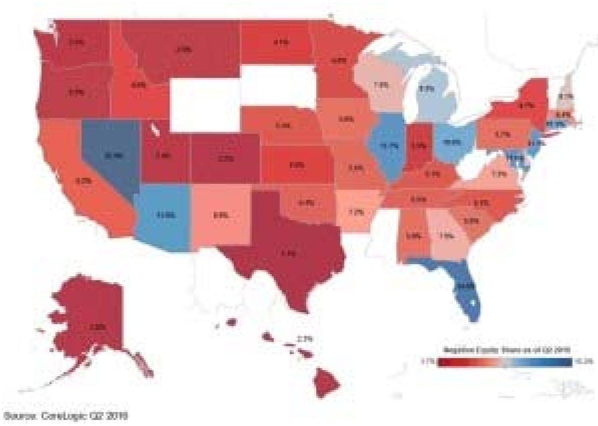
Not all cities are as fortunate.

The Miami and Las Vegas areas, with the two highest rates of negative equity rates still have double-digit negative equity rates, at 18.4 percent and 17.6 percent, respectively.

Given how fast home prices in the metro area have been rising, the low levels of negative equity in the Denver area did not surprise economist Patty Silverstein.

"I think the numbers show a couple of things," said Silverstein, principal of Development Research Partners. and the

"First, while Denver home prices declined during the Great Recession, they never declined as far as some other cities, most notably Las Vegas, Florida communities and Phoenix," said Silverstein, who also is the chief economist for the Metro Denver Economic Development Corp. and the Denver Metro Chamber of Commerce.



Negative equity rates by state. Colorado had the 3rd lowest negative equity rate in the second quarter. Source: CoreLogic.

"So following a less steep decline, that, in turn, was followed by the increases in value, which were both dramatic and steady," Silverstein said.

She noted that the amount of equity in a home in the Denver area will vary depending on when you bought it.

"Following the bottom of the market, we saw some rapid increases in values, but we also had more limited number of home sales during that period," Silverstein said.

Silverstein said the CoreLogic report points out that "real estate is local and not all parts of the country have been experiencing the kind of price increases we have seen," she said.

Phoenix home values, for example, have only recently topped where they were before the Great Recession, while Denver has enjoyed that status for several years.

The equity rich homes in the Denver area should be good news for the local economy, she said.

"Households feel a little wealthier, so you get that wealth effect," Silverstein said.

"Some people will take out home equity loans and others will just feel better having an asset that is supporting their spending patterns," she said.

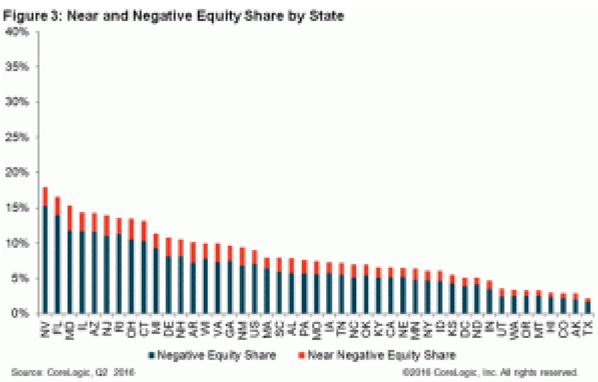
It is hard to tell whether the 1.5 percent negative equity rate is the lowest it has ever been in the Denver area, she said.

“I could neither confirm nor deny whether this is a record low. I just do not have that information,” she said.

In the entire state of Colorado, the overall negative equity rate was 2.2 percent, the third lowest in the country.

Only Texas and Alaska had lower rates, at 1.7 percent and 2.0 percent, respectively.

Nationwide, 7.1 percent of all homes with mortgages were underwater.



Another look at negative equity rates,
nationwide. Source: CoreLogic.

The aggregate value of negative equity nationwide was $284 billion at the end of the second quarter, down about $20.4 billion, or 6.7 percent, from $305 billion in the first quarter.

Year-over-year, the value of negative equity declined $314 billion, or a 9.5 percent drop from the second quarter of 2015.

Of the more than 50 million homes with a mortgage, approximately 8.6 million, or 17 percent, have less than 20 percent equity (referred to as under-equitied) and approximately 965,000, or 1.9 percent, have less than 5 percent equity (referred to as near-negative equity). Borrowers who are under-equitied may have a difficult time refinancing their existing homes or obtaining new financing to sell and buy another home due to underwriting constraints.

Borrowers with near-negative equity are considered at risk of shifting into negative equity if home prices fall

“Home-value gains have played a large part in restoring home equity,” said. Frank Nothaft, chief economist for CoreLogic.

“The CoreLogic Home Price Index for the U.S. recorded 5.2 percent growth in the year through June, an important reason that the number of owners with negative equity fell by 850,000 in the second quarter from a year earlier.”

“We see home prices rising another 5 percent in the coming year based on the latest projected national CoreLogic Home Price Index,” said Anand Nallathambi, president and CEO of CoreLogic.

"Assuming this growth is uniform across the U.S., that should release an additional 700,000 homeowners from the scourge of negative equity."

Have a story idea or real estate tip? Contact John Rebchook at JRCHOOK@gmail.com. DenverRealEstateWatch.com is sponsored by 8z Real Estate. To read more articles by John Rebchook, subscribe to the Colorado Real Estate Journal.

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John Rebchook

John Rebchook has more than 30 years of experience in writing and communications. As the Real Estate Editor for the Rocky Mountain News, he wrote about residential and commercial real estate for 26 years. He has won numerous awards for business stories and columns that he wrote, both as an individual and part of teams. In addition to real estate, he also covered economic development, banking and financing, the airlines, and cable TV for the Rocky. In addition, he was one of the original freelance writers for GlobeSt.com, covering commercial real estate for the Internet publication.

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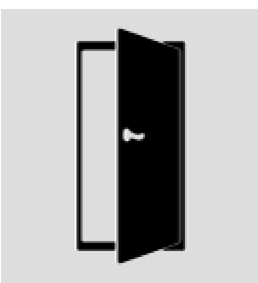

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