

A Changed Market: Short Sales and REOs

An In-Depth Look at Distressed-Property Trends

Inman News Case Study
September 10, 2009



Inman News Editorial Team:

Glenn Roberts Jr.
Managing Editor
glenn@inman.com

Matt Carter
Reporter
matt@inman.com

Dave D'Alessandro
Filing Editor
dave@inman.com

Editor's note: Special thanks to Sam Scott, who wrote and prepared this case study in collaboration with Inman News.

© 2009, Inman Group, Inc. All rights reserved.
All trademarks are the property of their respective companies. Reproduction or distribution of this report in whole or in part is strictly prohibited. For information about group purchases or other distribution options go to www.inman.com.

**THIS REPORT IS COPYRIGHTED.
REPRODUCTION OR DISTRIBUTION
IS PROHIBITED.**



1100 Marina Village Parkway
Suite 102
Alameda, CA 94501

A Changed Market: Short Sales and REOs

An In-Depth Look at Distressed-Property Trends

Inman News Case Study
September 10, 2009

TABLE OF CONTENTS

Executive Summary	page 4
A Growing Concern	page 5
Sales Follow Suit	page 6
Problems.....	page 7
Personal Dealings.....	page 9
Coming Up Short.....	page 10
Time is of the Essence	page 11
Take Longer, Fail More Often.....	page 12
Tied Up in Red Tape	page 14
Run-Down REOs	page 16
Forecast Calls for More Distressed Homes	page 18
Rewards and Costs	page 20
Cutting into Commission	page 21
By Regions.....	page 23
Regional Listings.....	page 24
Regional Sales	page 26
Market Balance	page 28
Personal Dealings.....	page 28
Time and Confidence	page 30
Future Focus.....	page 31
Appendix I	page 34

Executive Summary

The global economic recession has been a multifaceted challenge for real estate markets, shaving away years of appreciation while rising unemployment, lost investments and falling or frozen salaries have made it hard for some to hold onto their depreciating properties — and even harder to sell them.

The chilling effect has closed an emergency exit that was available for distressed homeowners and investors during the boom years — the quick and profitable sale — forcing many into foreclosure or selling at a loss.

“Short sales are a nightmare. Banks need to get their acts together.”
— Georgia agent

Misfortune for some has led to opportunity for others. The economic transformation has dusted off types of sales all but forgotten during the boom years — namely the short sale (in which the homeowner owes more than the property is worth) and the bank-owned sale (also known as a real estate-owned or REO sale).

The resurgence cuts both ways for those looking for a deal. While distressed properties can represent bargains for buyers while helping banks to recoup losses, such transactions can also end up as blood-boiling exercises in frustration for consumers, agents and brokers alike. Poor communication and delays in some cases can upend deals that had seemed like a sure thing.

“Short sales are a nightmare,” one agent in Georgia succinctly put it. “Banks need to get their acts together.”

The latest Inman News case study examines how real estate professionals are adapting to a resurgence in sales where a property is either marketed for less than is owed (as a short sale) or is repossessed by a lender and put back on the market as an REO property.

The online survey, conducted from May 13, 2009, to May 28, 2009, resulted in 541 responses. Three groups represented the vast majority of respondents: those who self-identified as sales associates and agents (52.5 percent of the total); those who self-identified as brokers (25.7 percent); and those who identified themselves as office managers or owners (11.3 percent).

About 10.5 percent of respondents listed other job titles, such as real estate appraiser, consultant or mortgage professional, among others.

More than one-quarter (28 percent) of respondents stated that they reside in California or Florida, with New Jersey, New York and South Carolina rounding out the top five.

Location	% of respondents
California	20%
Florida	8%
New Jersey	6%
New York	5%
South Carolina	5%

A Changed Market: Short Sales and REOs

An In-Depth Look at Distressed-Property Trends

In sum, the results point to a rise in both short sales and REOs over the past year — a trend that respondents expect to continue into 2010. The change reflects the continuing economic turmoil and represents an opportunity for investors and others.

Many of those surveyed said they would like to see the transaction process improved — especially for short sales, which respondent after respondent lambasted for taking too long, failing too often, and generally alienating agents and potential buyers.

“Banks are totally disorganized and lose short sales by sitting on the package as the prices fall and the properties deteriorate,” wrote one respondent in a detailed comment.

Despite the best hopes of many, most respondents across the country and across the spectrum of jobs expect distressed property sales to continue to rise in 2010, although at a lesser rate.

“Banks are totally disorganized and lose short sales by sitting on the package as the prices fall and the properties deteriorate.”
— Survey comment

A Growing Concern

Short sales and foreclosures occupy a small — though growing — niche among total deals in respondents’ home markets. On average, respondents said both REOs and likely short sales each account for about 20 percent of listings in their markets, up from their estimates of an 18 percent share of REOs and 14 percent share of short sales in 2008.

Just 13 percent of respondents indicated that REOs accounted for more than 40 percent of properties listed for sale in May 2009 in their areas — 2 percentage points higher than the same period last year.

The presence of REOs is largely universal these days. When asked about the current state of the market, just one respondent said there were no REO listings locally. During the same period in 2008, 16 said there were zero REOs.

And while 40 percent of respondents said REOs accounted for less than 10 percent of active listings at the time of the survey, 53 percent said that was the case at the same time last year.

The percentage of respondents indicating that REOs accounted for 11 percent to 20 percent of listings was up 20 percentage points in May 2009 compared to May 2008. And the percentage indicating REOs accounted for 21-30 percent of all listed properties jumped 55 percent year-over-year.

View detailed survey results in the complete “A Changed Market: Short Sales and REOs” case study, available for purchase at Inman.com. [CLICK HERE](#) for details.

The following is the full list of survey questions and responses (there were 541 total respondents):

1. What is your job title?

- Agent or sales associate.
- Broker
- Office manager or owner
- Other (please specify)

2. What state do you work in (if not in U.S., specify nation)?

3. What city/town do you work in?

4. My local multiple listing service (MLS) allows brokers to specify whether a property is (check all that apply):

- An REO (bank-owned or real estate-owned property)
- A likely short sale
- In an active foreclosure process

5. What percentage (estimate if no statistics) of all of the properties LISTED FOR SALE in your market area are:

- REOs?
- Likely short sales?

6. What percentage of all of the properties SOLD (during the most recent full month) in your market area were:

- REOs?
- Short sales?

7. DURING THE SAME PERIOD ONE YEAR AGO, what percentage (estimate if no statistics) of all of the properties LISTED FOR SALE in your market area were:

- REOs?
- Likely short sales?

8. DURING THE SAME PERIOD ONE YEAR AGO, what percentage of all of the properties SOLD in your market area were:

- REOs?
- Short sales?

9. What percentage of all transactions you have worked with AS A LISTING AGENT in the past year are:

- REOs?
- Likely short sales?
- Does not apply (Enter "X"):

10. What percentage of all transactions you have worked with AS A BUYER'S AGENT in the past year are:

- REOs?
- Likely short sales?
- Does not apply (Enter "X"):

11. In your recent experience, what is the length of time it typically takes for buyers to receive a response (approval or denial) when making a purchase offer on an REO (bank-owned) property?

- Less than 1 week
- From 1 week to 2 weeks
- More than two weeks, less than 1 month
- 1 month
- 2 months
- 3 months
- 4 months
- 5 months
- 6 months
- 7 months
- 8 months
- Longer than 8 months

12. In your recent experience, what is the length of time it typically takes for buyers to receive a response (approval or denial) when making a purchase offer on a likely SHORT SALE property?

- Less than 1 week
- From 1 week to 2 weeks
- More than two weeks, less than 1 month
- 1 month
- 2 months
- 3 months
- 4 months
- 5 months
- 6 months
- 7 months
- 8 months
- Longer than 8 months

13. What is the average time on market (specify or estimate the NUMBER OF DAYS, from listing to closing) in your primary market area for ALL PROPERTIES?

14. What is the average time on market (specify or estimate the NUMBER OF DAYS, from listing to closing) in your primary market area for REOs?

15. What is the average time on market (specify or estimate the NUMBER OF DAYS, from listing to closing) in your primary market area for SHORT-SALES properties?

16. What percentage of ALL PENDING SALES in your market ultimately fail, based on data or estimates from the latest full month? Specify:

17. What percentage of PENDING SALES for REO properties in your market ultimately fail, based on data or estimates from the latest full month? Specify:

18. What percentage of PENDING SALES for likely SHORT-SALE properties in your market ultimately fail, based on data or estimates from the latest full month? Specify:

19. What, in your estimation, is the most common reason PENDING SHORT SALES fail to close?

- Red tape/indecision on part of lender
- Second lien holder won't sign off
- Appraisal doesn't support sale price
- Buyer can't get financing
- Other (please specify)

20. What, in your estimation, is the most common reason that PENDING REO SALES fail to close?

- Banks holding out for better offers
- Problems with condition of property
- Banks placing conditions on sale
- Buyers can't get financing
- Other (please specify)

21. What, in your estimation, is the most common reason OVERALL PENDING SALES in your market fail to close?

- Appraisal doesn't support sale price
- Buyer can't get financing
- Buyers get cold feet
- Problems with condition of property
- Other (please specify)

22. In your estimate, how will the volume of REOs SOLD in 2009 compare to the volume in 2008?

- It will be unchanged from 2008
- The volume will SHRINK by less than 10 percent
- Down 10 percent to 25 percent
- Down 26 percent to 50 percent
- Down 51 percent to 75 percent
- Down 76 percent to 100 percent
- The volume will GROW by less than 10 percent
- Up 10 percent to 25 percent
- Up 26 percent to 50 percent
- Up 51 percent to 75 percent
- Up 76 percent to 100 percent or more

23. In your estimate, how will the volume of likely SHORT-SALE properties SOLD in 2009 compare to the volume in 2008?

- It will be unchanged from 2008
- The volume will SHRINK by less than 10 percent
- Down 10 percent to 25 percent
- Down 26 percent to 50 percent
- Down 51 percent to 75 percent
- Down 76 percent to 100 percent
- The volume will GROW by less than 10 percent
- Up 10 percent to 25 percent
- Up 26 percent to 50 percent
- Up 51 percent to 75 percent
- Up 76 percent to 100 percent or more

24. In your estimate, how will the volume of REOs SOLD in 2010 compare to the volume in the CURRENT YEAR (2009)?

- It will be unchanged from 2008
- The volume will SHRINK by less than 10 percent
- Down 10 percent to 25 percent
- Down 26 percent to 50 percent
- Down 51 percent to 75 percent
- Down 76 percent to 100 percent
- The volume will GROW by less than 10 percent
- Up 10 percent to 25 percent
- Up 26 percent to 50 percent
- Up 51 percent to 75 percent
- Up 76 percent to 100 percent or more

25. In your estimate, how will the volume of SHORT-SALE properties SOLD in 2010 compare to the volume in the CURRENT YEAR (2009)?

- It will be unchanged from 2008
- The volume will SHRINK by less than 10 percent
- Down 10 percent to 25 percent
- Down 26 percent to 50 percent
- Down 51 percent to 75 percent
- Down 76 percent to 100 percent
- The volume will GROW by less than 10 percent
- Up 10 percent to 25 percent
- Up 26 percent to 50 percent

A Changed Market: Short Sales and REOs

An In-Depth Look at Distressed-Property Trends

- Up 51 percent to 75 percent
- Up 76 percent to 100 percent or more

26. REO properties tend to sell for ___% less than non-distressed properties in my market area. Specify a percentage, or state “does not apply” if REOs tend to sell for a higher price.
27. SHORT SALE properties tend to sell for ___% less than non-distressed properties in my market area. (Specify a percentage, or state “does not apply” if short sales tend to sell for a higher price.)
28. As a buyer’s agent in this market area, it’s typical to earn ___% commission when working with REO properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)
29. As a listing agent in this market area, it’s typical to earn ___% commission when working with REO properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)
30. As a buyer’s agent in this market area, it’s typical to earn ___% commission when working with likely SHORT-SALE properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)
31. As a listing agent in this market area, it’s typical to earn ___% commission when working with SHORT-SALE properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)
32. As a buyer’s agent in this market area, it’s typical to earn ___% commission when working with NONDISTRESSED properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)
33. As a listing agent in this market area, it’s typical to earn ___% commission when working with NONDISTRESSED properties. (Specify the percentage of the sale price or typical compensation formula, and state “does not apply” if the question does not pertain to you.)

View detailed survey results in the complete “A Changed Market: Short Sales and REOs” case study, available for purchase at [Inman.com](#). [CLICK HERE](#) for details.



1100 Marina Village Parkway • Suite 102 • Alameda, CA 94501

© 2009, Inman Group, Inc. All rights reserved. All trademarks are the property of their respective companies. Additional reproduction or distribution of this report in whole or in part is strictly prohibited. For information about group purchases or other distribution options go to www.inman.com.

THIS REPORT IS COPYRIGHTED. REPRODUCTION OR DISTRIBUTION IS PROHIBITED.