

Marin's Shadow Inventory

By Bob Ravasio

There does not appear to be an excess of "Shadow Inventory" waiting to burst on to the Marin housing market in our review of tax records.

"Shadow Inventory" is getting a lot of play in the press these days. This is a term that refers to foreclosed upon properties that banks are holding on to and not selling right away, probably because banks do not want to flood the market and drive down prices with too much inventory. That's important because the correlation between housing prices and the number of bank-owned properties for sale is very strong- i.e., as more REOs are for sale, housing prices go down. In some areas hardest hit in the housing crunch, like Stockton, the numbers are staggering. But the effects are not as severe in Marin County.

We use Realist, which is affiliated with our MLS service and provides up-to-date, thorough tax record search capability. According to Realist there are 246 bank-owned properties in Southern and Central Marin, from San Rafael south to Sausalito, and as far west as Fairfax. Of those properties, 88 are already for sale on MLS. So that means that 158 properties are "shadow inventory", waiting to come on to the market.

Digging deeper, it appears that a number of these are also small lots, with no development and very low assessed value; many are under \$200,000. There are also several very high value commercial properties included in the data.

There are a number of other anomalies in the information. For example, even though these show up as bank owned when searched, a number of properties actually list the owner as a family, so those should probably be excluded. Year to date there have been 57 REO sales in Southern and Central Marin. So factoring out the odd lots, anomalies, and commercial property, there is probably a year's worth of REO inventory currently recorded. In our judgment, "shadow inventory" is a minor threat to housing prices here.

Nationally, most predictions are for additional pricing softness in the first half of 2012. The reason is that banks, which had slowed down the foreclosure process for the past year, are now accelerating the foreclosure process and plan to move that inventory. Chase, for example, is predicting a 6 to 7% drop in pricing in the first half of 2012-and guess who is one of the largest holders of residential mortgages is in the country?

Again using Realist, we checked the number of homes that have had foreclosure or auction notices recorded since August 1. There are 237 properties in the same cities we listed above that are in some stage of foreclosure. Of those, 126 have moved into the initial stage of foreclosure since August 1, so certainly, a percentage of those will also become REOs. However, 66 of these homes are already for sale on MLS, so it is likely a lot of them will become short sales.

We expect more distressed properties for sale in early 2012, but based on reviewing it by city, it should not be much different from what we have seen so far: the majority will be concentrated in San Rafael and Novato, with the rest evenly scattered throughout Southern and Central Marin.

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MARIN MARKET REPORT

NOVEMBER 2011

The Marin housing market is definitely picking up in sales velocity, primarily as a result of more aggressive pricing.

Currently, we are at 34% in contract - squarely in a balanced market. Low interest rates have buyers searching for bargains. But a lot of them will only buy if they think the home is a bargain. Year to date, average sale price for a single family home has declined 3.2% in Marin County, and for condominiums, pricing is down 8.8%.

Transactions, however, are definitely now trending up. We have 1833 transactions so far this year vs. 1731 last year, a 6% increase. Well-priced homes continue to sell quickly, and the best neighborhoods, as usual, are the most in demand. For example, 17 Escalón in Mill Valley just closed at \$1,379,000 - 17 days on market, and over asking price. 15 Quisiana in Kentfield, a new home, got two offers and sold for \$2,900,000, \$300,000 over asking. And 55 Meadowood in Larkspur closed at \$1,559,000 (all cash!), with three offers after only four days on market.

Families with children looking for great schools are the ones who are ready and able to buy homes in Marin this season. So nice yards, good neighborhoods, and three or four bedrooms are big selling points.

Pricing does help. Under \$750,000, 44% of the available homes are in contract. In the \$750,000-\$1,500,000 range 29% are in contract, and over \$1,500,000, 11% are in contract. Pricing would indicate we are seeing lots of first time buyers, and that is also who we see coming to open houses.

Inventory is tightening, and even though pricing is down year to date, we expect pricing to start firming up now. There is a great window right now for sellers created by low interest rates, good demand, and lack of great inventory. The first half of next year may be a little soft (see story at left), but we believe any declines will be minor, with stabilization in the second half of 2012.

We appreciate your referrals of friends, family and neighbors!

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