'Double-edged sword' for real estate

Foreclosure pause will slow price declines, but delay N.J.'s economic recovery

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By Evelyn Lee

On a decline since tax credits for buyers expired earlier this year, New Jersey's housing market could fall into a deeper slump with the recent foreclosure moratorium, which threatens to further weaken sales and delay recovery, insiders said.

The latest troubles began in late September, when major banks suspended foreclosure proceedings amid documentation problems. Last month, investigators opened an inquiry into whether mortgage servicers improperly signed off on foreclosure documents in their states.

The foreclosure delays are a "double-edged sword," said Jeffrey G. Otteau, president of Otteau Valuation Group Inc., an East Brunswick appraisal and consulting firm. Since the federal homebuyer tax credits expired in April, New Jersey home sales have fallen by 30 percent, and "the housing market has been suffering under the weight of rising unsold inventory," he said.

A moratorium would reduce the number of foreclosed properties that come to market, slowing the decline in prices, since distressed assets often are sold at a discount, thereby lowering the values of nearby, comparable properties.

"If we delay foreclosure action until both the economy and housing market are in better shape, the market will then be able to absorb this deluge of distressed properties," Otteau said.

But in the long term, delaying foreclosure delays recovery. "We will have built up this larger reserve, and it will take longer to work through those foreclosures," he said.

And until more foreclosed properties are sold, to establish pricing, "prospective purchasers would remain hesitant," said Patrick O'Keefe, director of economic research at J.H. Cohn, a Roseland-based accounting firm. Residential developers, meanwhile, will face "a market that is even more difficult to gauge and predict" than prior to the foreclosure suspension, he said.
Meanwhile, would-be buyers "are not going to be willing to go into a foreclosure and buy that house," for fear the credibility of the foreclosure documents could be contested later on, said Jeffrey Sica, president of Sica Wealth Management, in Morristown.

A foreclosure moratorium "brings a level of uncertainty in the marketplace," said Tim Touhey, CEO of the New Jersey Builders Association, in Hamilton, saying it's important to move back to a normal real estate cycle. But "what's more of a driver of decisions on real estate is still unemployment numbers," he said. If hiring were to pick up in New Jersey, the inventory of foreclosed properties could be cleared fairly quickly — in about eight to 15 months, Touhey said.

Peter Hovnanian, a principal of J.S. Hovnanian & Sons LLC, a Mount Laurel-based homebuilder, agreed, saying, "confidence, employment and just the general condition of the world economy are going to have more importance

A foreclosure moratorium could wind up having a positive impact on the new-home industry, says Peter Hovnanian, principal of J.S. Hovnanian & Sons LLC, in Mount Laurel.

in the minds of consumers” than the foreclosure suspension.

If anything, the moratorium “may have a positive impact on the new-home industry,” Hovnanian said. Prospective buyers may find purchasing a foreclosed property “is not as easy as it seems,” he said. “Navigating those waters may be more challenging than buying a new home.”

Touhey said state regulations have helped thwart overbuilding that has plagued states like Florida and California, lessening the impact of foreclosures, but Otteau said New Jersey is worse off, since it’s one of 23 states where foreclosures are handled through the courts. Because a judicial process is more complicated, “we will be dealing with this much longer than other states,” he said. While most states will have sold off their foreclosure inventory by the end of 2012, “in New Jersey, we’ll be dealing with this until 2015.”

The Garden State has about 15 months of inventory, or 180,000 homes — including 100,000 foreclosed properties — but that number is rising. Home prices will decline slightly over the next year before hitting bottom in 2011, and the market will start to improve in 2012, Otteau said. “But a recovery, getting back to a healthy real estate market where supply and demand are in balance, doesn’t occur until 2015.”

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