Partly Sunny Real Estate Market

by Kathy Danforth

Everyone hopes that they have seen the worst of the real estate price plunge, delinquencies, and foreclosures. It is a relief to not have ever-increasing problems in most associations, but without the solid support of a healthy, growing economy in place, community associations are still vulnerable. Mitch Drimmer with Association Financial Services, a licensed realtor, as well as a licensed community association manager, observes, "Yes, delinquencies have declined, and short sales and bank foreclosures have increased [so empty homes have new owners]; but we are not out of the woods yet. Lots of communities have learned to live with delinquency rates that were intolerable a few years ago and many of them have dipped into their reserves and will not feel that pain for another few years. Also, many associations have cut back on services that make community life so enjoyable. Associations have taken a beating and are far from being fluid."

Foreclosures are a continuing issue that associations are unfortunately now experienced at facing. "Currently, people who got adjustable rate mortgages five years ago are having their rates adjusted," Drimmer points out. "It's the witching hour, and banks are very reluctant to refinance, especially with units that have lost equity. You had buyers getting into these houses with very thin folios—a great credit score based on just a few months of good payments—who may have been making $20,000 but were able to borrow for a $300,000 McMansion. Five years later, their spouse may no longer be working because of the economy, and when the balloon payment comes due, they have to leave. The banks were making the loans and selling them as mortgage-backed securities for a profit, so they weren't carefully screening buyers to guard their depositors' money."

According to **realtytrac.com**, the average number of properties in the state that received a foreclosure filing in August 2012 was one out of every 328 homes. This rate is down from October 2011, but was higher than June and July. Counties with the highest number of foreclosures were Miami-Dade, Broward, Palm Beach, Orange, Hillsborough, Duval, Pinellas, and Lee.

As far as foreclosures for the rest of the year, Drimmer relays banker information that most foreclosure decisions are made by the end of August. He explains, "The banks have to know where they stand. If they write off too much bad debt, they have to increase their capital reserves. If they don't have adequate reserves, the FDIC will shut them down—that's one reason why they're slow to foreclose."

Prices are not soaring, but in almost all markets, prices have risen since last year and time on the market has dropped. "In the Miami-Dade area, prices are going up," Drimmer reports. "I still see a problem on the West Coast, especially in the Ft. Myers-Naples area, though it's a little better in Tampa. Orlando is still hurting since it was a classic second-home marketplace."

According to Drimmer, "The higher-priced homes always have more fluidity because there's going to be wealthy people who can afford them. The lowest-priced homes also are very fluid, with action from people looking for opportunities to buy units cheaply and develop them for rental income. It's the middle of the market that's hardest hit." Different areas of the state have faced varied timing and severity of the housing crash. Local economies, timing of construction, prevalence of investors or second-home buyers, and other factors override averages in any situation. Areas such as Tallahassee have had a muted rise, fall, and leveling of prices. Sales listed on **trulia.com** show Jacksonville's average sales price peaking at $176,000 in 2006 and bottoming out below $100,000 in 2011–2012. Meanwhile, Orlando's average price peaked in 2005 at $255,000 and sank to $80,000 in 2008. Miami saw its highest average sales price at over $300,000 in late 2008, which by mid-2010 was $130,000. The Tampa area saw its highest average sales price in 2007 at $220,000, but it sank to $87,000 in the first half of 2011. Slow sales bring prices down, and low prices bring sales up, but most of the positive price trends are rather slow and erratic—but definitely an improvement over a nosedive with no confidence in returning value!

"Foreign money is a great help in the market," Drimmer notes. "If things are good in Europe, we get English and Irish money. If it's going well in South America, we get Brazilian and Argentine money. Possibly we'll start seeing Chinese, Japanese, and Australian money. Foreigners love to invest in America so that's a help to the American market."

"Even though it's helpful to our economy, there's a problem because the foreigners pay with cash and that's squeezing out American buyers. Banks now are not willing to lend, so sellers are willing to take a lower cash offer from a foreign buyer rather than see if a bank may come through with a loan," Drimmer comments.

"Banks are not lending," he states. "It's going to take a lower loan-to-value (LTV) ratio to get a mortgage. Where we used to have a 20-percent down payment, they will want 30–40 percent to make sure there's equity in the unit. People will have to save and get the money together."

Drimmer points out, "It's worse for homeowners in condominiums and HOAs because banks tend to loan for an individual home much quicker than a home in an association. A family can budget well, but if their neighbors don't pay their dues, it affects their family's economy. The bank knows the relationship isn't just between the lender and buyer; it's also dependent on all the neighbors since you're somewhat married to all the people in the association. It's communalism—not communism or socialism—and it's a beautiful thing when everybody works together.

But if the neighbors don't all pitch in, you're affected. When I work with boards on collections, they may say, 'We don't want to be harsh.' I counter with, 'Those who are merciful to the cruel are cruel to the merciful.' You've got to move forward with collections, get tough, and think of the innocent people who will have to pay more if the delinquencies are not paid."

Since many associations feel that just surviving the economic crisis is enough, Drimmer sees fighting complacency as a significant challenge. He observes, "To some boards, a delinquency rate of five to ten percent has become acceptable. It's not." Drimmer advises, "First, associations need to recover as much as legally possible from the foreclosing banks. Yes, we have all been told that the statutory cap is the lesser of 12 months maintenance fees or one percent of the first mortgage amount, but in many cases, the associations can recover more than that. Late fees, late interest, collection costs, and attorney fees should also be recovered."

Second, Drimmer recommends, "If associations find that the banks are not foreclosing, then they should move forward with their own foreclosure if they have the intention to rent out the unit." That will help recover losses as well as avoid vacancy issues.

Drimmer's third recommendation is, "Don't negotiate with a terrorist. If the bank has a short sale, the association does not have to take that hit. Associations and boards need to get tough and tell the bank, the real estate sales associate, and the potential new owner that if they buy a unit in a short sale, there is a bill to pay." A new, paying owner is a wonderful thing, but it doesn't have to be an either/or choice with collecting debts.

Fourth, Drimmer reminds associations that the original debtor does not get a free pass. "If the association has taken a write-off, they should pursue the old owner and attempt to collect what was not paid."

"The worst approach is to keep your head in the sand, cut services, and reduce curb appeal," Drimmer observes. If collections are not vigorously pursued, the consequences are compounded. "Once they cut services and raise assessments, it will hurt sales in the association," Drimmer observes.

Sales are picking up, but Drimmer predicts, "I expect that you will start to see some condominiums in the middle and lower areas start to become rental properties. That endangers the condominium concept totally because there's not the same neighborhood concept and common cause."

To restore community budgets as soon as possible, though, Drimmer points out, "Make it easier for real estate professionals to sell in your building. Make sure you have sales packages ready for them with all the information that they need to sell the units in your community. It's the real estate professional who will be most helpful in the near future." ■