Everything Jersey

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RealtyTrac to revise formula

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When RealtyTrac releases data on home foreclosures each month, media outlets across the country rush to print and broadcast the news.

But following complaints from a number of housing experts the Irvine, Calif.-based firm double- and triple-counts properties as they move through various stages of the foreclosure process, RealtyTrac said it plans to change the way it crunches the widely followed data.

RealtyTrac told The Star-Ledger starting as early as next month, it will publish the number of unique households affected by foreclosure, in addition to releasing its usual recap of new filings.

The change is expected to dramatically decrease the number of foreclosures in any given state, according to RealtyTrac. Under the change, New Jersey could find itself in the middle of the pack, instead of having the 12th-highest foreclosure rate in the country under RealtyTrac's current reporting system.

RealtyTrac's data have become a closely watched barometer of the real estate market, especially since the housing boom collapsed and the number of mortgage delinquencies and foreclosures has risen sharply.

Rick Sharga, vice president of marketing at RealtyTrac, said the company decided to fine-tune its figures because too many people -- including the media -- were misinterpreting the foreclosure numbers.

"We stand by our numbers and always have, because they are exactly what is in the public record," Sharga said. "But we want to provide a greater level of detail now ... so people don't misinterpret what we are reporting."

Part of the problem is how housing experts define "foreclosure."

Foreclosure is not a single event but rather a sequence of events that in some states, including New Jersey, can drag on for a year or more, Sharga noted.

Typically, RealtyTrac counts every step in the drawn-out foreclosure process separately -- notice of default; lis pendens, or the filing of a lawsuit to repossess a home; sheriff's sale; and a final step when ownership reverts to the bank if the property has not been sold at an auction.

Now, in addition to supplying information about each stage of foreclosure, RealtyTrac will report the number of unique properties in the foreclosure process, counting them just once.

Sharga said RealtyTrac, which compiles its data from filings in county recorder offices throughout the nation, has always been clear about its methodology.

"If a property goes through three phases of foreclosure over the course of a year, we will count three separate filings, and we identify them as separate filings," he said.

But housing experts such as Jeffrey Otteau, president of the Otteau Valuation Group, a leading real estate research firm in New Jersey, believes RealtyTrac's existing methodology is highly misleading.

Back in March, for example, RealtyTrac reported 4,780 properties in New Jersey had entered into foreclosure that month. Otteau's own data suggested the actual number of New Jersey homes repossessed by lenders in March was just 270.

The reason for the discrepancy?

Otteau is counting homes in the final "REO" stage, when the bank has repossessed the property.

"RealtyTrac's numbers are counting houses each time they pass through one of those four stages, and thus, some homes are getting counted three or four times, which exaggerates the numbers greatly," Otteau said. "Given that only a small percentage of delinquent loans actually reach the final stage of foreclosure, the reported figures are not what they appear to be."

Indeed, as even RealtyTrac acknowledges, 60 percent of proprieties that enter the foreclosure process fall out sometime before an auction occurs, according to Sharga. Of the remaining 40 percent that reach the auction stage, half get sold to a third-party buyer and the other half get repossessed by the bank.

The reason Otteau sticks with the REO count when tallying foreclosures is the REO number impacts the inventory of homes on market. The higher the inventory of homes, the more home prices are dampened.

Since the beginning of 2007, between 200 and 300 homes have been coming onto the market each month due to foreclosures, according to Otteau. Currently, there are about 70,000 homes for sale in New Jersey, he said.

"To put that figure into perspective, since there are 21 counties in New Jersey, 250 houses coming on the market each month from foreclosures would be the equivalent of adding about 12 houses per county," he said. "Don't get me wrong this is a serious problem that will continue to worsen between now and the end of 2008, but right now, this is a having a relatively small real effect on the housing market."

Otteau isn't alone in challenging RealtyTrac's figures. In Colorado, the state Division of Housing accused RealtyTrac of purveying inflated numbers.

RealtyTrac reported Colorado had 54,747 foreclosures in 2006, with a foreclosure rate of 1 in 33 households. But after collecting its own data, the state's Division of Housing concluded the foreclosure rate for Colorado was closer to 1 in 58, with a total number of 28,453 filings in 2006.

Doug Duncan, the chief economist at the Mortgage Bankers Association, has also criticized RealtyTrac, noting "their business model is to market foreclosed properties." RealtyTrac, which is privately held, charges subscribers $49.95 a month for its foreclosure listings.

Other companies that compile and publish foreclosure numbers for a profit, including DataQuick and PropertyShark, have also been criticized by housing experts for either underreporting or exaggerating the numbers.

In October 2006, Foreclosure.com, another data collection firm, made a strategic decision to no longer release monthly foreclosure statistics.

The company told its customers, "Now that the media is saturated with wild and unsubstantiated numbers ... it validates our decision to take a step back and reevaluate how to proceed going forward. Fortunately, the media and local governments have started to scrutinize foreclosure numbers rather than accept them at face value."