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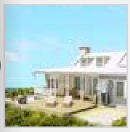
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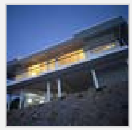
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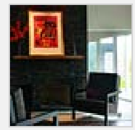
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REAL ESTATE | MAY 9, 2011

Home Market Takes a Tumble

Turnaround More Distant After 3% Drop, Steepest Quarterly Decline Since 2008

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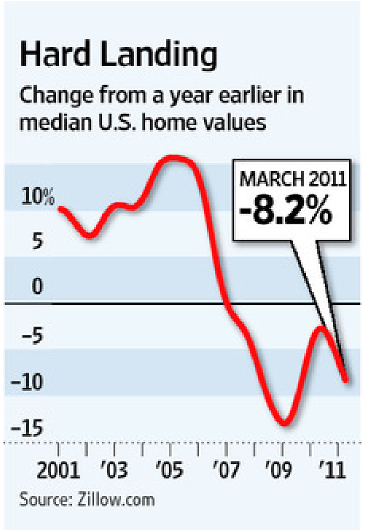
By NICK TIMIRAOS And DAWN WOTAPKA

The U.S. housing market's 1Q 2011 decline was the steepest in three years. Additionally, a Zillow.com survey indicates nearly 30% of borrowers owe more than their homes are worth. WSJ's Nick Timiraos reports. (Photo by Scott Olson/Getty Images)

Home values posted the largest decline in the first quarter since late 2008, prompting many economists to push back their estimates of when the housing market will hit a bottom.

Home values fell 3% in the first quarter from the previous quarter and 1.1% in March from the previous month, pushed down by an abundance of foreclosed homes on the market, according to data to be released Monday by real-estate website Zillow.com. Prices have now fallen for 57 consecutive months, according to Zillow.

Last year, the housing market showed signs of improving as price depreciation slowed in some markets and stabilized in others. In response, a number of economists began forecasting that



housing would hit a bottom in late 2011, then begin to recover. But the improvements, spurred by federal programs that gave buyers up to $8,000 in tax credits, proved fleeting. Sales collapsed when the credits expired last summer, and prices in many markets have been falling ever since.

While most economists expected sales to decline after tax credits expired, the drag on the market has been greater than many anticipated. "We expected December and January to be bad" as the market reeled from the after-effects of the tax credit, said Stan Humphries, Zillow's chief economist. But monthly declines for February and March were "really staggering," he said. They indicate "a reflection of the true underlying demand, which is now apparent because most of the tax credit is out of the system, and it's being completely overwhelmed by supply."

Mr. Humphries now believes prices won't hit bottom before next year and expects they will fall by another 7% to 9%. Other economists revised their forecasts. In April, the chief economist at mortgage company Fannie Mae, Doug Duncan, said home prices in the second quarter would be 5.3% lower than the previous-year period, down from his earlier estimate of a 2.6% decline.

Associated Press

An abundance of foreclosed homes on the market is pushing down home values.

The estimates, which are based on data from the mid-1990s on, come from a proprietary computer program that takes into account sale prices for nearby homes that appear comparable, the size and other physical attributes of the home, its sales history and tax-assessment data, Mr. Humphries says.

Prices are decelerating in large part because the many foreclosed properties that often sell at a discount force other sellers to lower their prices. Mortgage companies Fannie Mae and Freddie Mac have sold more than 94,000 foreclosed homes during the first quarter, a new high that represented a 23% increase from the previous quarter. More could be on the way: They held another 218,000 properties at the end of March, a 33% increase from a year ago.

The companies are bracing for more bad news: On Friday, Fannie reported a $6.5 billion net loss, largely as it boosted loan-loss reserves in anticipation of falling home prices.

Paul Dales, a senior U.S. economist with Capital Economics, says prices could fall by as much as 10%, down from his previous forecasts of around 5%. A March survey of more than 100 economists by MacroMarkets LLC forecasts a 1.4% drop in prices this year, down from the December estimate of a 0.2% decline.

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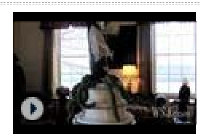

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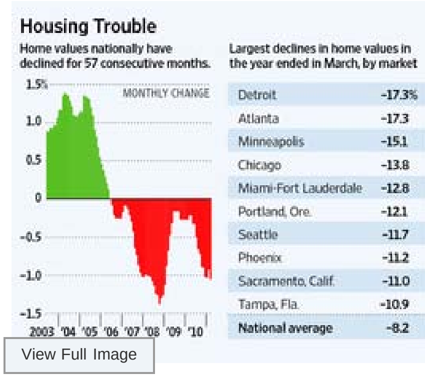

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Other home-price indexes also show weakness. The widely followed Case-Shiller index published by Standard & Poor's showed that prices climbed from April 2009 until last summer, when they started declining as tax credits expired. Today, prices are on the verge of reaching new lows, the index shows. The Case-Shiller index tracks repeat sales of previously owned homes using a three-month moving average.

According to the Zillow index, a handful of California markets and Washington, D.C., saw price appreciation last year, but that has since reversed. Mr. Humphries attributes the "double dip" in those markets, which include Los Angeles, San Francisco and San Diego, to the way in which the tax credit stimulated demand from buyers. When the tax credit went away, markets were left with rising supply from foreclosures but with less demand from buyers.

Detroit, Chicago and Minneapolis posted the largest declines during the first quarter of the top 25 metro areas tracked by Zillow, while Pittsburgh, Dallas and Washington posted the smallest declines.

To be sure, steep declines in home prices along with mortgage rates near their lowest levels in decades have helped make housing more affordable than at any time in the past 30 years, according to Zillow. Markets that have lower levels of foreclosures, such as Dallas, and those with better job-growth prospects, such as Washington, are faring better.

However, credit standards remain tight, posing another challenge for the housing market. Just as many unqualified borrowers received loans during the boom, "there are people today who probably could afford loans but can't get them," says David Berson, chief economist at PMI Group Inc. The average credit score on loans backed by Fannie Mae stood at 762 in the first quarter, up from an average of 718 for the 2001-2004 period.

Joe Sullivan, a real-estate agent in Stockton, Calif., is worried that more traditional buyers are seeing their loan applications canceled late in the process as lenders change qualification terms. If mortgage standards continue tightening, prices are "going to drop down to where only investors can get them, people with cash money," he said. Sales to absentee buyers, primarily investors, accounted for 47% of all Phoenix-area home sales in March, the highest level for any month in more than a decade, according to DataQuick, a real-estate research firm.

Christine Rice spent two years looking to buy a home in Los Angeles but found herself continually losing out to bids from investors offering to pay in cash. In September, she finally made a winning bid, paying $275,000 for a two-bedroom home. The prospect of falling prices "doesn't keep me up at night, but only because it was so cheap," says the 43-year-old tailor, who says she and her husband needed to move to have more space for their family. Her mortgage payments plus taxes are less than the rent she had been paying. "If it had been a stretch, then maybe I'd be worried," she says.

Buyers who qualify for mortgages are demanding bigger discounts as added insurance against further declines in values. Sellers, meanwhile, are balking. "More often, they don't want to take the first offer," says Jeffrey Otteau, president of Otteau Valuation Group, an East Brunswick, N.J., appraisal firm. "What they don't realize is, in an oversupplied market, the next offer is for less."

While some analysts have argued that home prices need to fall to "clearing prices" that will attract more buyers, price declines could also complicate any recovery by pushing more borrowers under water. Zillow estimates that more than 28% of borrowers owe more than their homes are worth nationally. Those numbers are much higher in hard-hit markets such as Phoenix, where more than two-thirds of borrowers owe more than their homes are worth.

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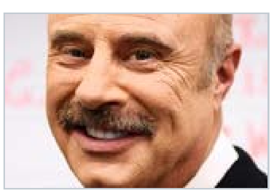

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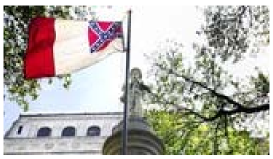

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