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By KELSEY GEE

The housing market is improving across the nation, but the New York metro area is lagging behind.

According to the closely watched S&P/Case-Shiller home price index, which was released Tuesday, prices in the largest 20 metro areas were up a seasonally adjusted 0.9% in May from April and were down 0.7% when compared with May a year ago. But in the New York metro area, prices are recovering far more slowly, up just 0.6% in May from April and down 2.8% from a year ago.

Downswing

Top 10 cities in the N.Y. metro area with the largest home price drops since June 2011

Roselle, N.J.	-12.5%
Nanuet, N.Y.	-11.1%
Plainfield, N.J.	-10.5%
Union, N.J.	-10.3%
Monsey, N.Y.	-10.0%
Mount Vernon, N.Y.	-9.9%
Rahway, N.J.	-9.6%
Port Chester, N.Y.	-9.4%
Bayonne, N.J.	-9.2%
Town of Ossining, N.Y.	-8.9%

Source: Zillow.com The Wall Street Journal

Economists say cities and towns in New York and New Jersey are experiencing an uneven recovery where affluent areas are generally improving while working-class communities remain in distress. The New York area is "still suffering a bit from what happened during the financial collapse," says Maureen Maitland, vice president of S&P Indices. "There was a lot of job loss for people in financial services in the area, and that hasn't come back."

The market is especially troubled in New Jersey. Data compiled for The Wall Street Journal by Zillow.com shows that of the 25 cities in the metro area with the biggest year-over-year price declines as of June, nearly 70% are in New Jersey.

Three of the four largest declines were in New Jersey, with Roselle, down 12.5%; Plainfield, down 10.5%; and Union Township, down 10.3%. All three towns have been grappling with job losses. In the past few months, prices improved across the state but it isn't clear whether the

trend will continue.

"It's urban and rural markets where home prices are the worst," says Jeffrey Otteau, president of Otteau Valuation Group, a New Jersey-based analysis firm. "That's where the greatest number of subprime loans originated, where unemployment is highest."

New Jersey is also dealing with a huge foreclosure problem and a large backlog of properties that banks will have to take back and resell.

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During the first quarter, 8.4% of all New Jersey homes with a mortgage were in foreclosure the second highest percentage in the country after Florida, according to the Mortgage Bankers Association. Moreover, when including loans that are 90 days or more past due, the so-called shadow inventory, foreclosures rise to 12.4%, the third largest percentage in the country. In total, that amounts to about 153,000 homes either in foreclosure or possibly heading to foreclosure.

Not all of the shadow inventory will actually end up in foreclosure as banks and the courts try to negotiate new mortgage terms with homeowners that allow them to stay in their homes. But realtors and appraisers say the fear that thousands of foreclosed homes will soon hit the market and overwhelm demand is putting downward pressure on prices—even though it hasn't yet happened.

"Today's prices reflect some degree of awareness of the foreclosure pipeline," says Patrick O'Keefe, director of economic research for the consulting firm J.H. Cohn and a former Labor Department official. "What none of us knows is the extent to which forward discounting will affect future transactions."

Even in some affluent New Jersey towns with stable prices and just a handful of foreclosures, appraisers are being exceptionally conservative when placing values on properties. "Appraisers cannot ignore distressed sales as possible comparable sales," says Ken Chitester, a spokesman for the Appraisal Institute, an industry trade group.

The foreclosure backlog in New Jersey partly reflects attempts by the state to stop abusive foreclosure practices and give homeowners time to work out their problems with lenders.

At the end of 2010, New Jersey Supreme Court Chief Justice Stuart Rabner called for all bank-submitted residential foreclosure actions to be reviewed by two court-appointed masters before the foreclosures could move forward, putting in place a de facto moratorium on new filings.

The moves mainly affected the biggest lenders in the state, including Citigroup Inc., J.P. Morgan Chase & Co., Bank of America Corp. and Wells Fargo.

The moratorium made an already lengthy foreclosure process even longer. In 2007, it took an average of 310 days for a home to go through the foreclose process, according to real estate research firm RealtyTrac. By the time the moratorium was fully lifted in February of this year, the average time that a house is in foreclosure in New Jersey had extended to 966 days.

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*A version of this article appeared August 1, 2012, on page A18 in the U.S. edition of The Wall Street Journal, with the headline: Local Prices Slow to Mend.*

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