MONTHLY MARKET UPDATE
JULY 2024

Distressed Property Sales

An Opportunity to Expand Your Business?

eXp REALTY

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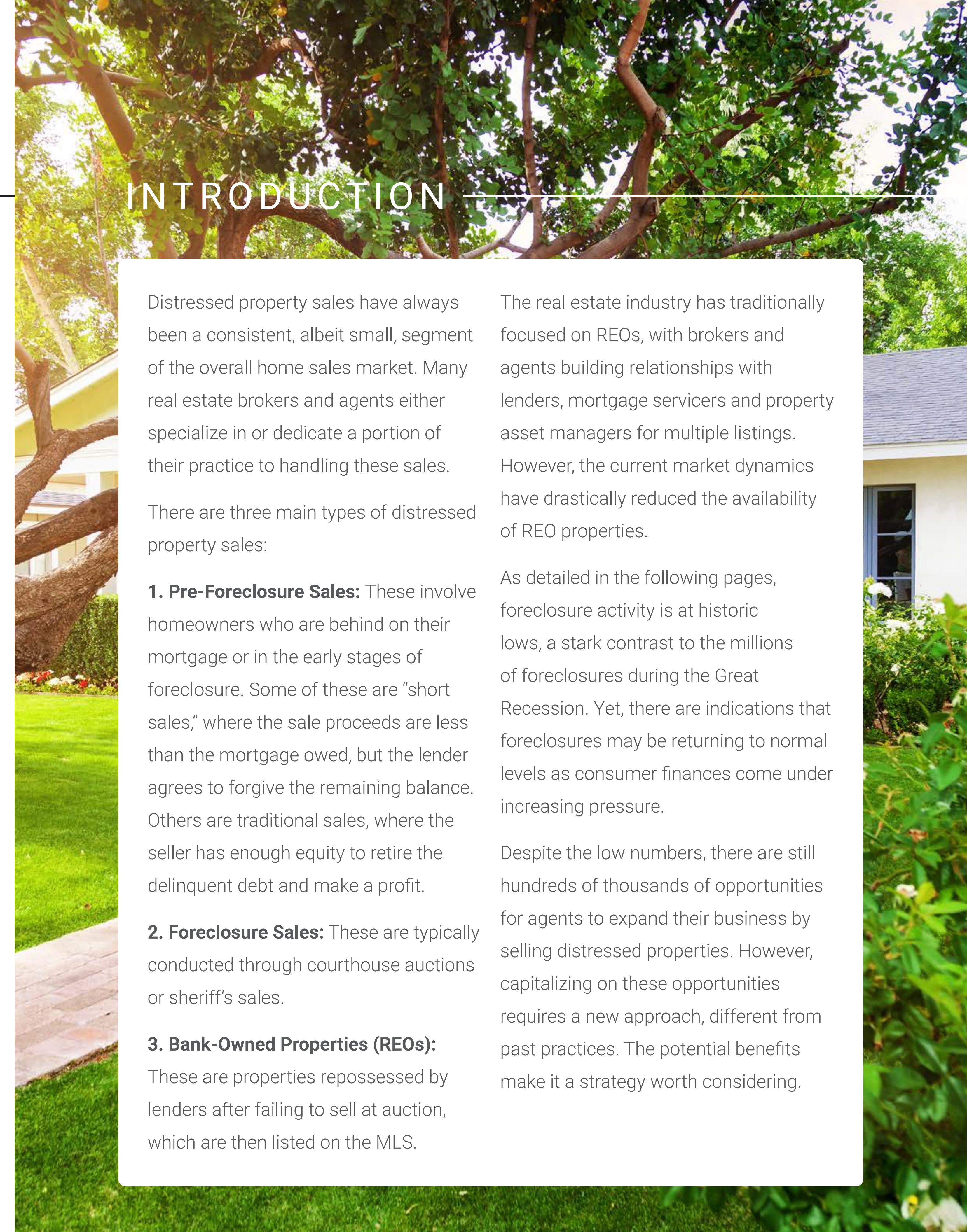


INTRODUCTION

Distressed property sales have always been a consistent, albeit small, segment of the overall home sales market. Many real estate brokers and agents either specialize in or dedicate a portion of their practice to handling these sales.

There are three main types of distressed property sales:

1. Pre-Foreclosure Sales: These involve homeowners who are behind on their mortgage or in the early stages of foreclosure. Some of these are "short sales," where the sale proceeds are less than the mortgage owed, but the lender agrees to forgive the remaining balance. Others are traditional sales, where the seller has enough equity to retire the delinquent debt and make a profit.

2. Foreclosure Sales: These are typically conducted through courthouse auctions or sheriff's sales.

3. Bank-Owned Properties (REOs): These are properties repossessed by lenders after failing to sell at auction, which are then listed on the MLS.

The real estate industry has traditionally focused on REOs, with brokers and agents building relationships with lenders, mortgage servicers and property asset managers for multiple listings. However, the current market dynamics have drastically reduced the availability of REO properties.

As detailed in the following pages, foreclosure activity is at historic lows, a stark contrast to the millions of foreclosures during the Great Recession. Yet, there are indications that foreclosures may be returning to normal levels as consumer finances come under increasing pressure.

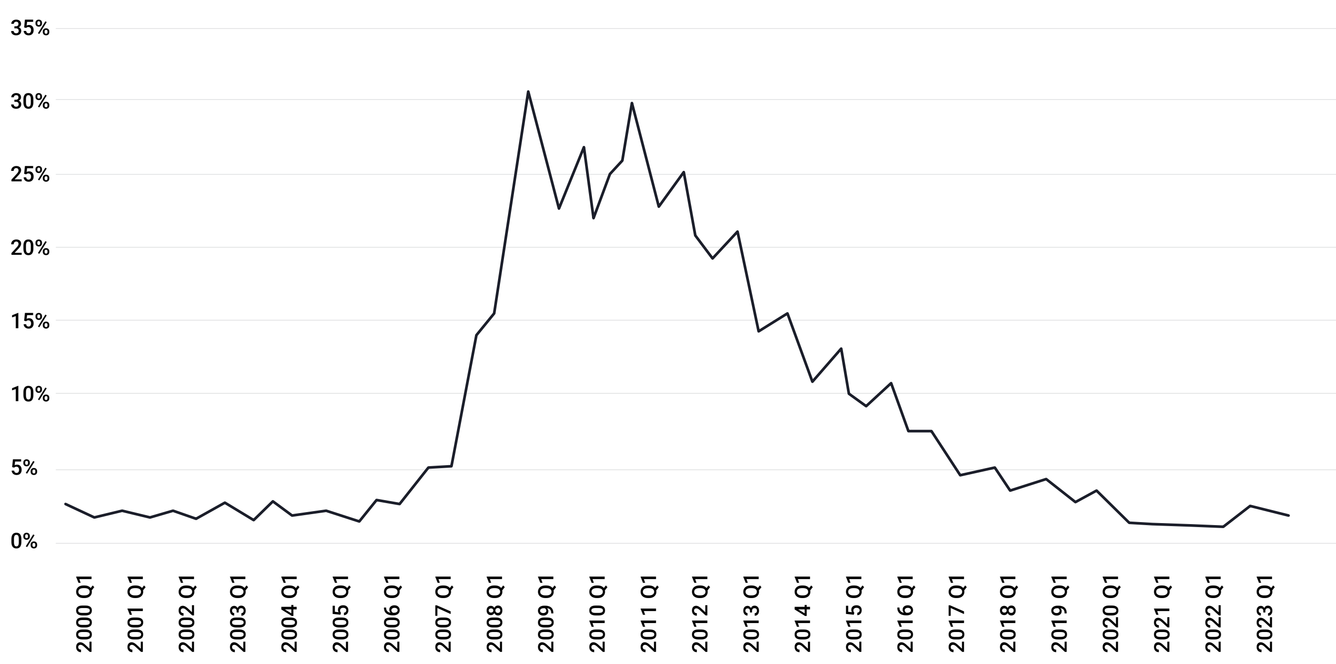
Despite the low numbers, there are still hundreds of thousands of opportunities for agents to expand their business by selling distressed properties. However, capitalizing on these opportunities requires a new approach, different from past practices. The potential benefits make it a strategy worth considering.

Distressed Property **Sales Climbing Back Slowly** from Historic Lows

- Distressed property sales usually make up 3-5% of all existing home sales. This surged to over 30% during the foreclosure crisis of the Great Recession but fell below 1% during the Federal Government's foreclosure moratorium in the COVID-19 pandemic.
- According to CoreLogic data analyzed by the Freddie Mac Economics Team, distressed property sales edged back towards 3% by the end of 2023 and are expected to continue rising slowly in 2024.

BOTTOM LINE

Even coming off record low levels, distressed property sales are likely to make up between 150,000 and 200,000 existing home sales in 2024.



Distressed Sales as a Share of Total Shales

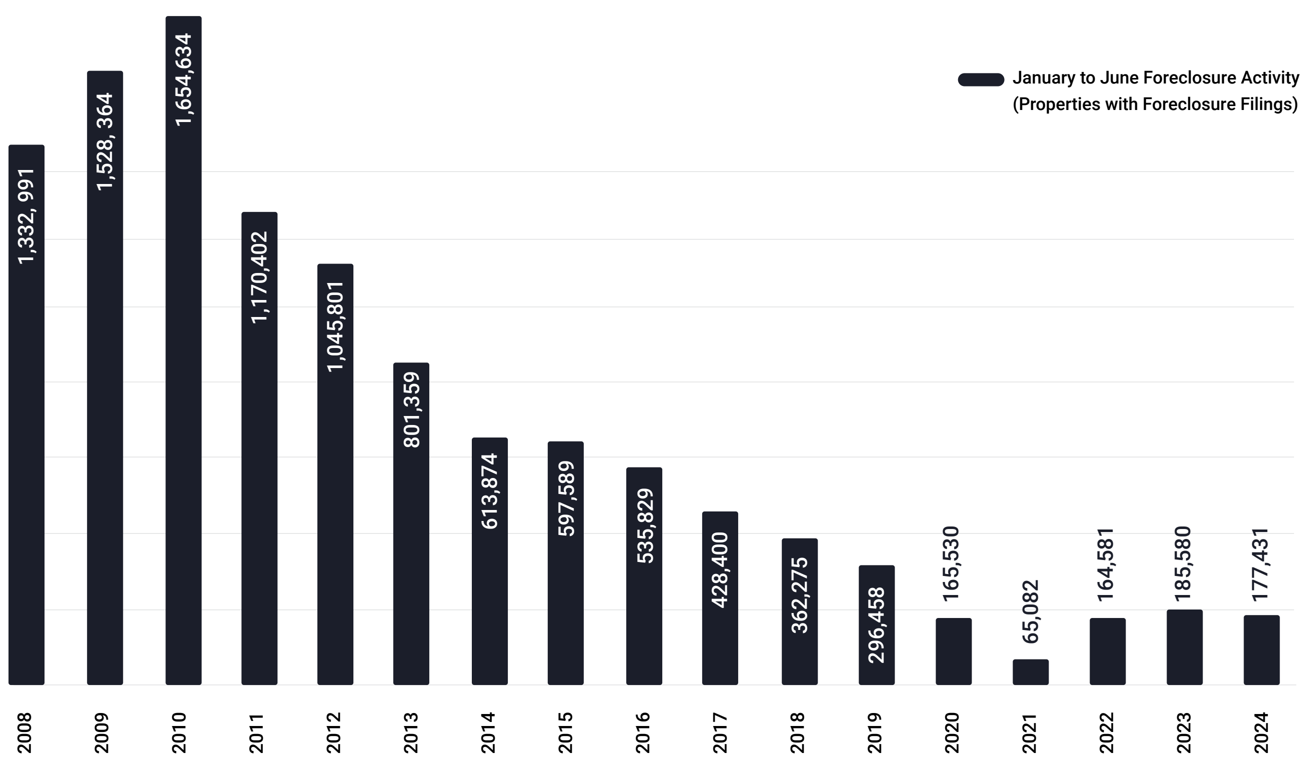
Source: Freddie Mac Analysis of Corelogic Data

Foreclosure Activity Actually *Declined* Compared to the First Half of 2024

- According to ATTOM Data's Midyear 2024 Foreclosure Report, **overall foreclosure activity declined by 4%** from the first half of 2023. Foreclosure Starts - the first notice of default received by a delinquent borrower - declined by 3.5%.
- The decline in REO actions - lender repossessions - was much more severe, dropping by 17% year-over-year.

BOTTOM LINE

Far fewer distressed properties are being repossessed by lenders compared to previous cycles. Agents aiming to engage in this market segment must adapt their approach accordingly.



First Half US Foreclosure Activity by Year

Source: ATTOM Data

Mortgage Delinquency Rates **Approach Record Lows**

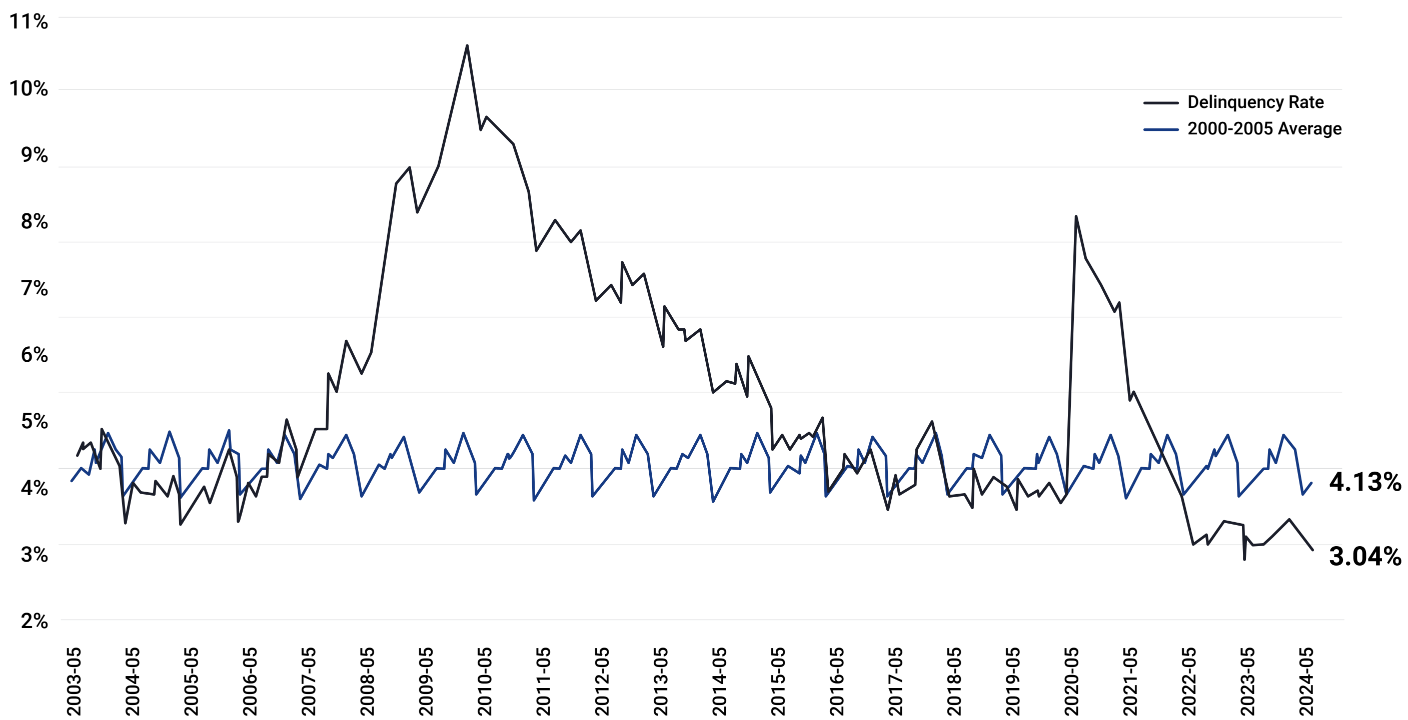
According to ICE Mortgage Technologies, mortgage delinquency rates dropped to 3.04% in May, the second-lowest on record, following March 2023's 2.92%. Historically, the average mortgage delinquency rate since the 1970s has been 5.25%, making today's figures exceptionally low. Several factors contribute to these lower delinquency rates:

Improved Borrower Credit Quality: The mortgage industry corrected risky lending practices post-Great Recession.

Strong Economy: Low unemployment rates reduce the likelihood of delinquencies.

Refinancing: Millions of borrowers refinanced during the pandemic to historically low 2-3% mortgage interest rates, resulting in lower payments than a few years ago.

BOTTOM LINE **Delinquency rates are very low, so finding distressed properties will take more work than in the past.**



National Delinquency Rate of First Lien Mortgages

Source: ICE Mortgage Technologies, McDash

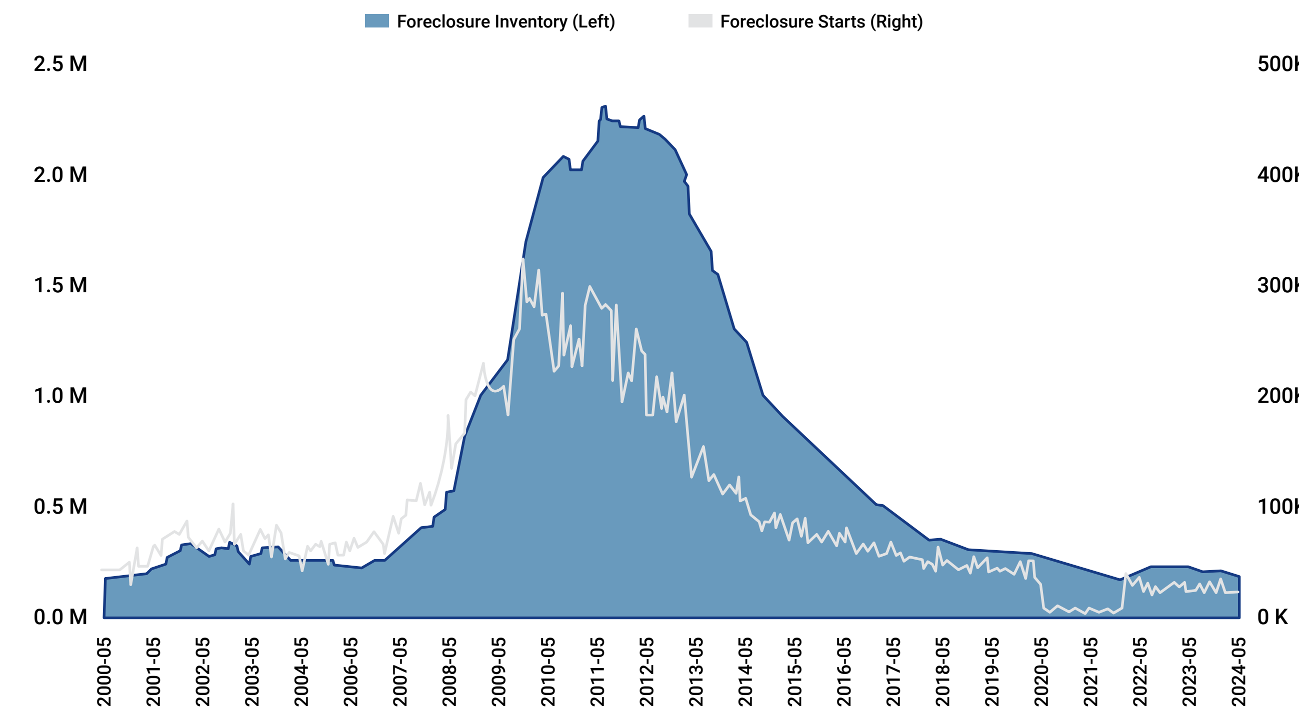
Distressed Property Sales

Fewer Delinquent Loans **Result in Fewer Foreclosures**

In a typical year, 1.0-1.5% of mortgage loans are in foreclosure, equating to around 530,000 homes. Currently, only about 200,000 homes are in foreclosure. Most economists expect this number to rise as the U.S. economy slows and unemployment increases from its unusually low levels.

Although foreclosure starts are slightly down year-over-year, they are gradually returning to pre-pandemic levels, now at about 80% of their 2019 rates. This trend suggests that the number of homes in foreclosure will steadily increase, potentially reaching pre-pandemic levels by next year.

BOTTOM LINE **Many industry experts believe that foreclosure activity may have bottomed out, and that the number of homes in foreclosure is likely to increase slowly and steadily over the next year.**



Foreclosure Inventory and Starts

Source: ICE Mortgage Technologies, McDash

Consumer Debt Is at an **All-Time High**

One of the reasons that economists believe there will be more foreclosures coming is that consumers have a historically high amount of debt:

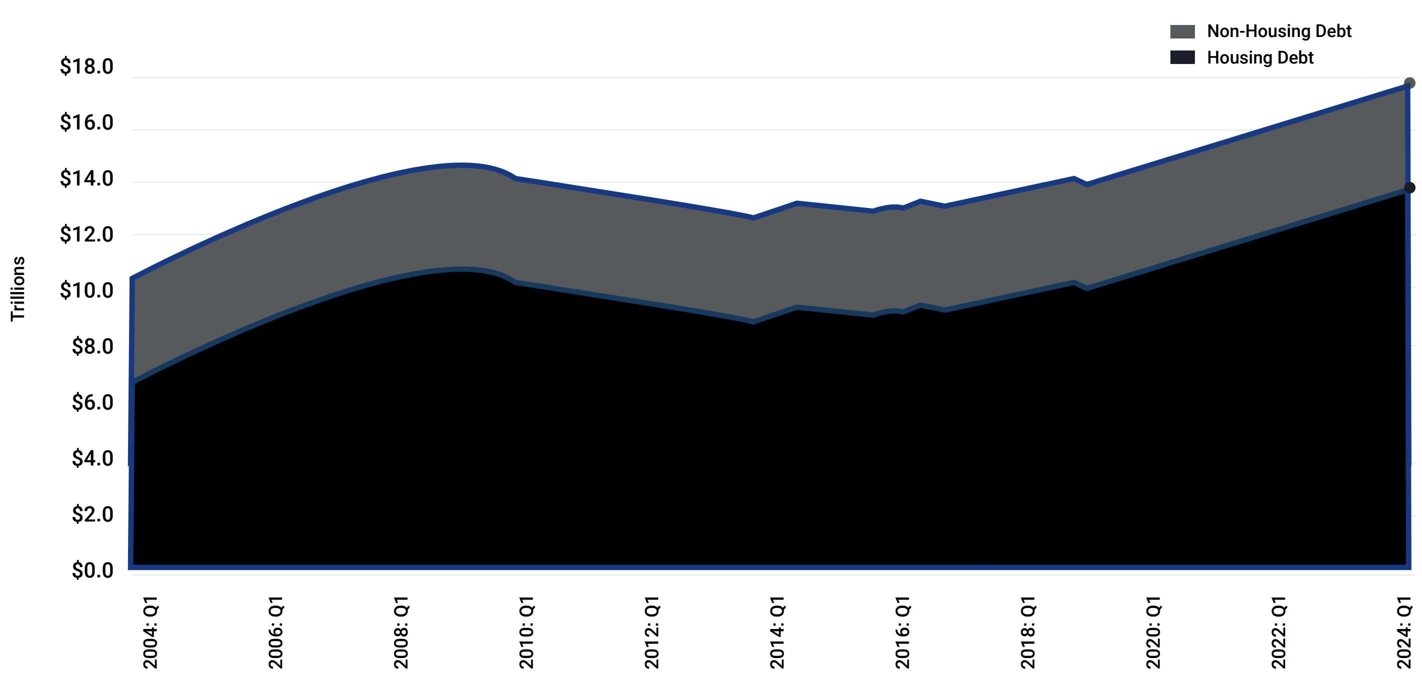
Credit card debt is at a record high of $1.3 trillion, at a time when new credit card accounts are carrying interest rates between 25-30%.

Student loan debt - which now has to be repaid after a three-year government forbearance program - sits at $1.5 trillion.

Auto loans account for another $1.6 trillion in consumer debt.

BOTTOM LINE

Consumers are carrying a record level of debt, which could become a problem for many households if the economy slows down and/or unemployment rises.



Total Debt Balance

Source: New York Fed Consumer Credit Panel/Equifax

Distressed Property Sales

Consumer Delinquencies **Are Rising**

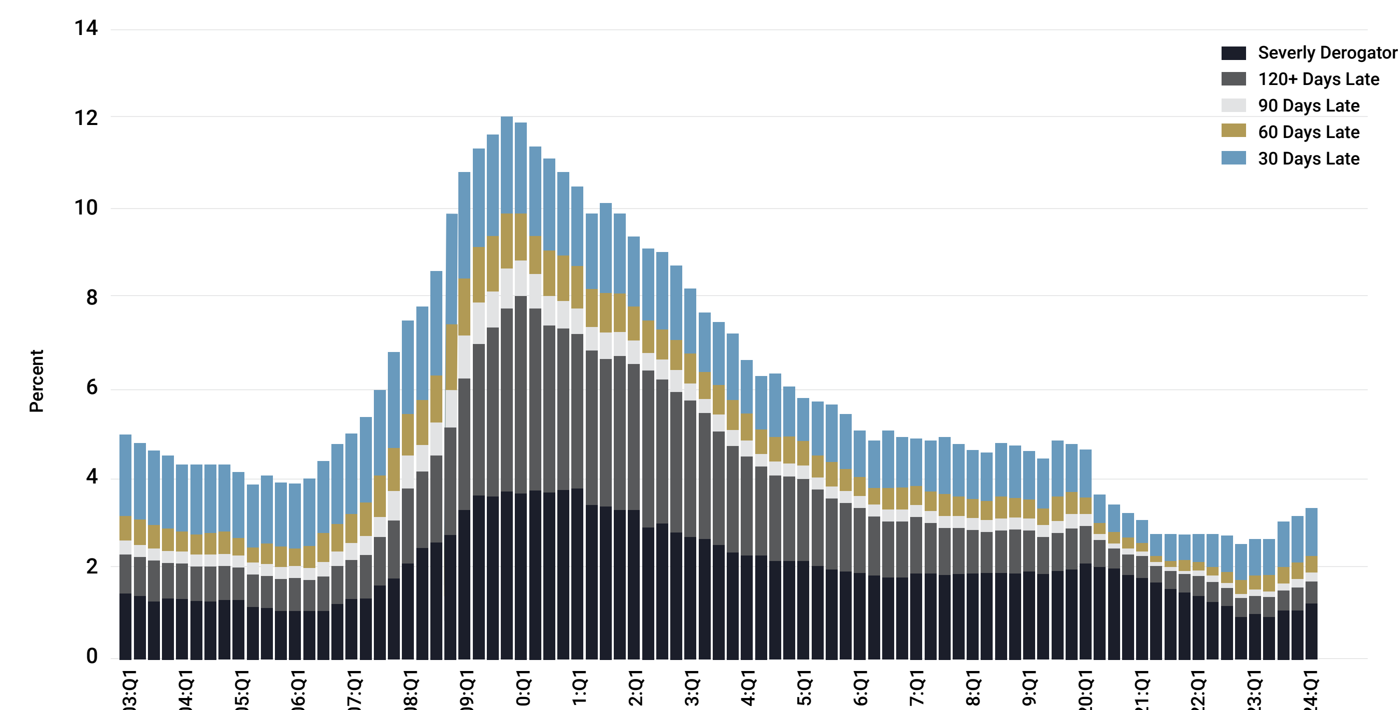
While consumers are holding record amounts of debt, there's evidence that they may be starting to have trouble making their scheduled payments:

Overall delinquency rates have increased for three consecutive quarters, and have almost returned to pre-pandemic levels.

A significant rise in delinquencies is predominantly evident at the initial 30-day stage, signifying a single missed payment. However, delinquency rates are up across all stages.

BOTTOM LINE

There are signs that households are beginning to have trouble meeting their financial obligations, which may be an early indicator of future problems with mortgage payments.



Total Balance by Delinquency Status

Purchas-Only FHFA HPI® (Seasonally Adjusted, Nominal)

Source: NY Fed Consumer Credit Panel / Equifax

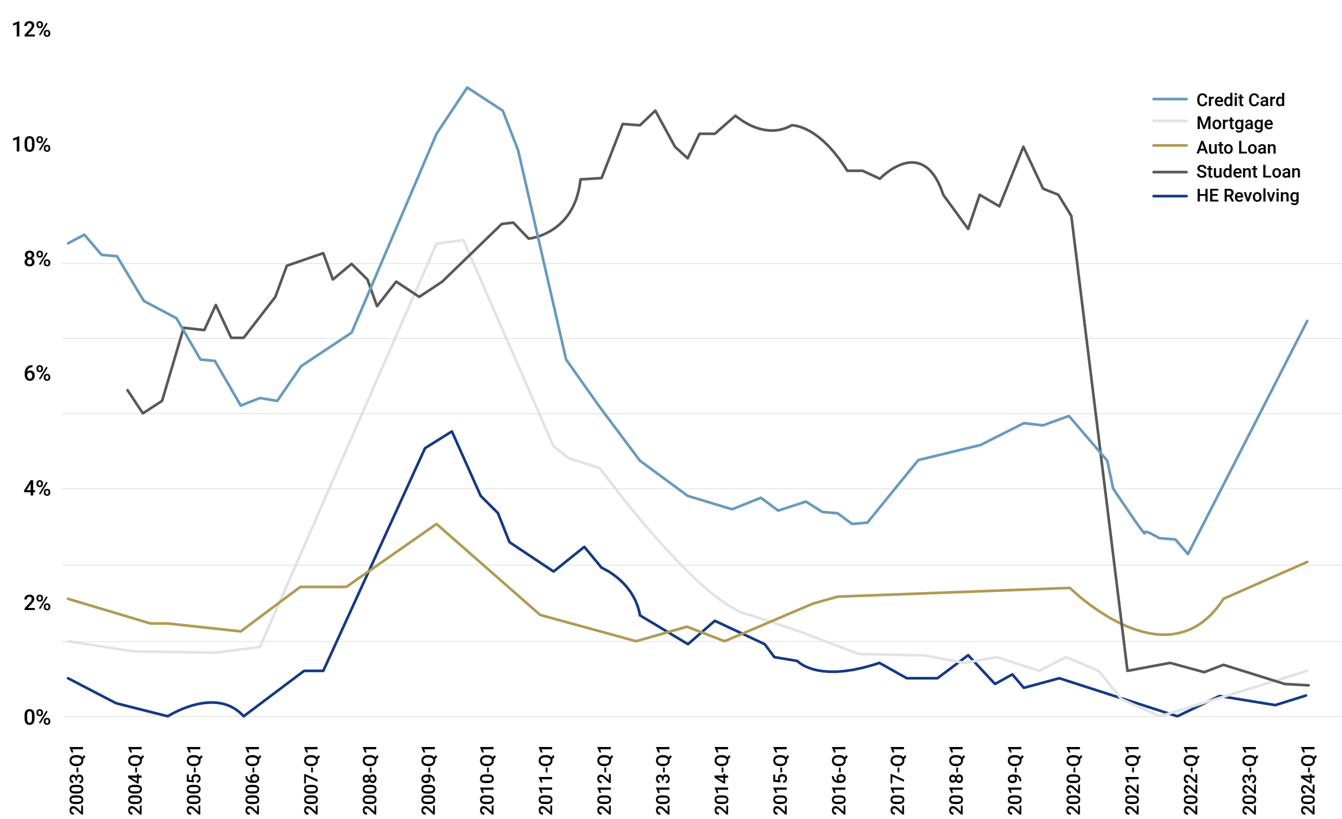
Almost All Types of Consumer Loans are Approaching 2019 Delinquency Levels

Consumer loans transitioning from early-to-late stage delinquency is another indicator that many households may be struggling financially.

Serious delinquency rates on mortgages have been trending up slowly, but aren't quite back to pre-pandemic levels.

BOTTOM LINE

Both credit card and auto loan delinquency rates have exceeded pre-pandemic levels. This trend is likely to seep into the mortgage market at some point.



Transition into Serious Delinquency (90+) by Loan Type
Student Loan Data not reported prior to 2004 due to uneven reporting

Source: NY Fed Consumer Credit Panel / Equifax

Distressed Property Sales

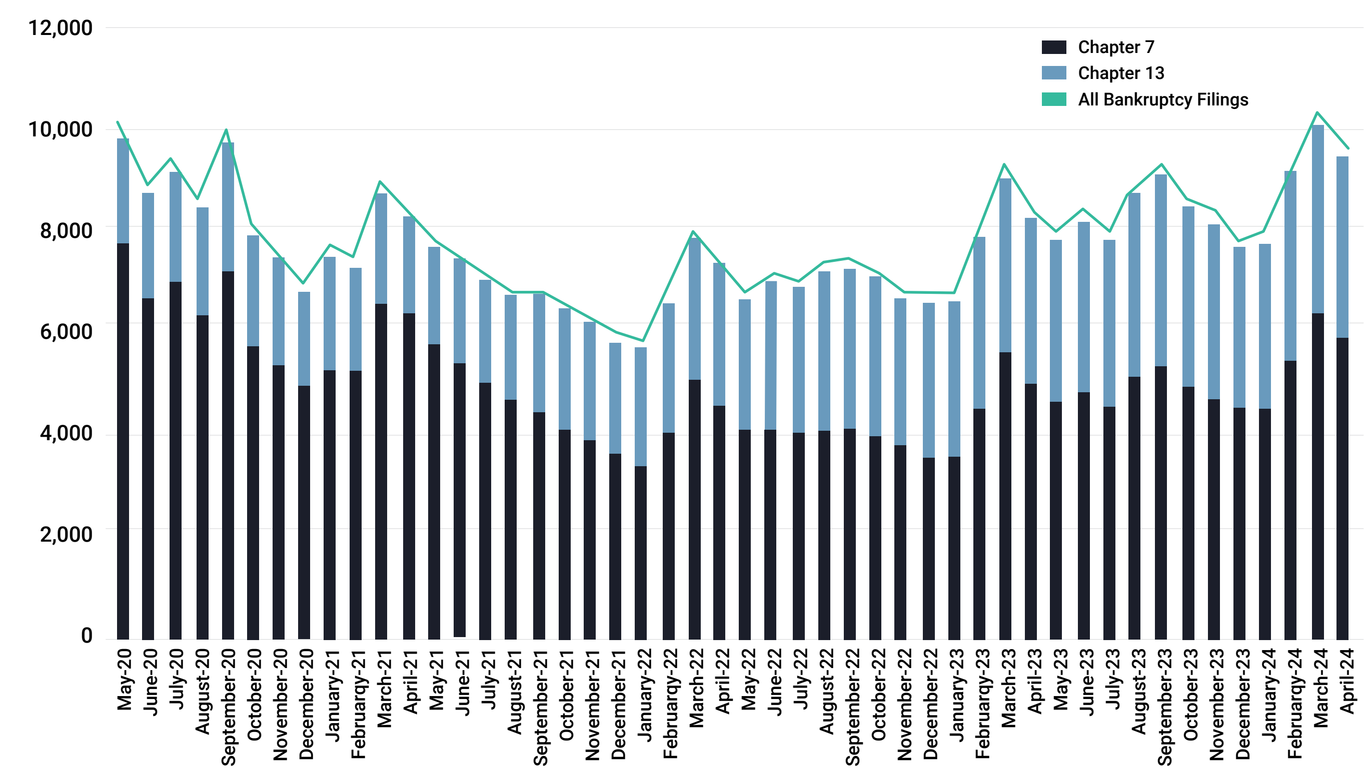
Consumer Bankruptcy Filings **Continue to Rise**

Consumer bankruptcy filings rose by 15% in April, the 21st consecutive month with an annual increase.

Chapter 13 filings - often a last-ditch effort by a borrower to save a home from foreclosure - rose by 11%, and have risen year-over-year for 31 consecutive months.

BOTTOM LINE

Consumer bankruptcies - often used to forestall a foreclosure - are another indication of potential consumer financial weakness.



Average Weekly Bankruptcy Filings by Month

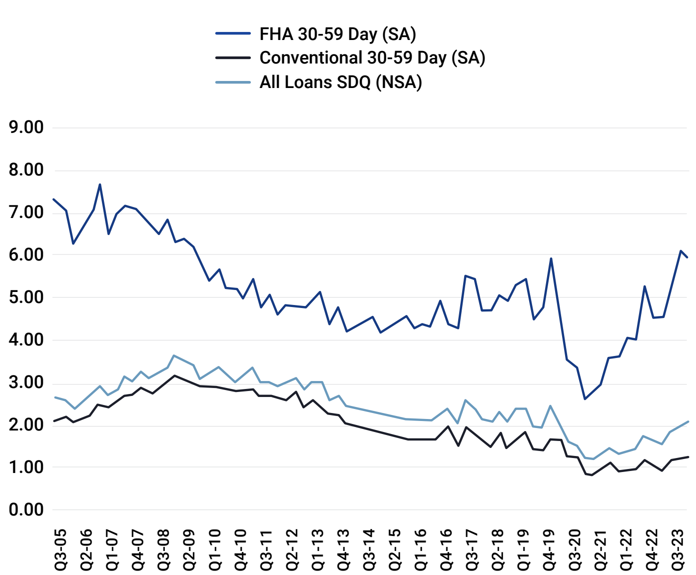
Source: American Bankruptcy Institute

FHA Borrowers Have Highest Delinquency Rates, Are **Most Vulnerable to Economic Downturn**

- An Auction.com analysis of data from the Mortgage Bankers Association notes that delinquencies on FHA loans are running at more than twice the overall rate: over 6% of FHA borrowers are between 30-60 days delinquent, and almost 4% are at least 90 days delinquent.
- FHA borrowers are more vulnerable to an economic downturn, as they typically have lower household income, lower savings, less equity and higher debt-to-income ratios than borrowers with conventional loans.

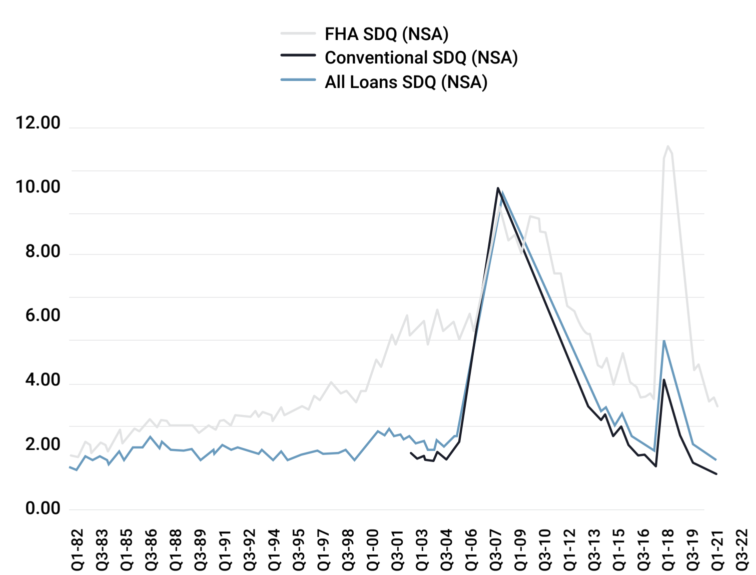
BOTTOM LINE

Agents in markets with a high percentage of FHA borrowers are likely to see higher delinquency rates and higher default rates than agents in other markets.



30-59 Day DQ Rate by Loan Type

Source: Auction.com, Mortgage Bankers Association



SDQ Rate by Loan Type

Source: Auction.com, Mortgage Bankers Association

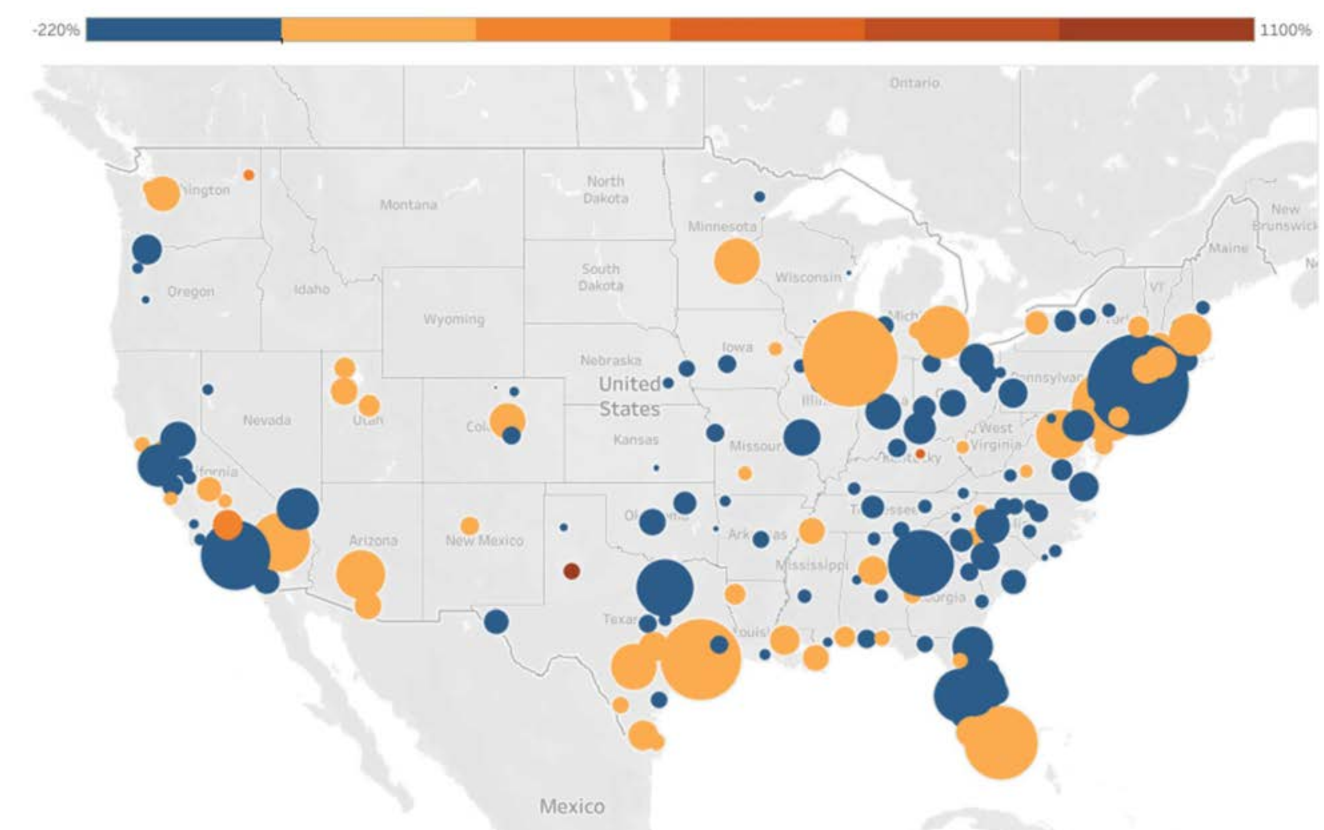
Distressed Property Sales

Foreclosure Activity Highest Across Southern States, Growing in Rust Belt, Northeast and Mid-Atlantic States

- While foreclosure activity is still below normal levels, it's beginning to increase in a number of states, including California, Arizona, Texas, Louisiana and Florida. Other metro areas - notably Seattle, Chicago, Detroit, Philadelphia and New York City, are also seeing increased activity.

BOTTOM LINE

Real estate agents should closely monitor foreclosure trends in their local markets. Even though national figures are on the decline, certain local markets are witnessing a surge in activity.



May 2024 Foreclosure Starts by Metro Area
Year over Year Change

Source: Auction.com, ATTOM Data Solutions

Record Equity Keeps Foreclosures Low - But **Presents Agents With a Golden Opportunity**

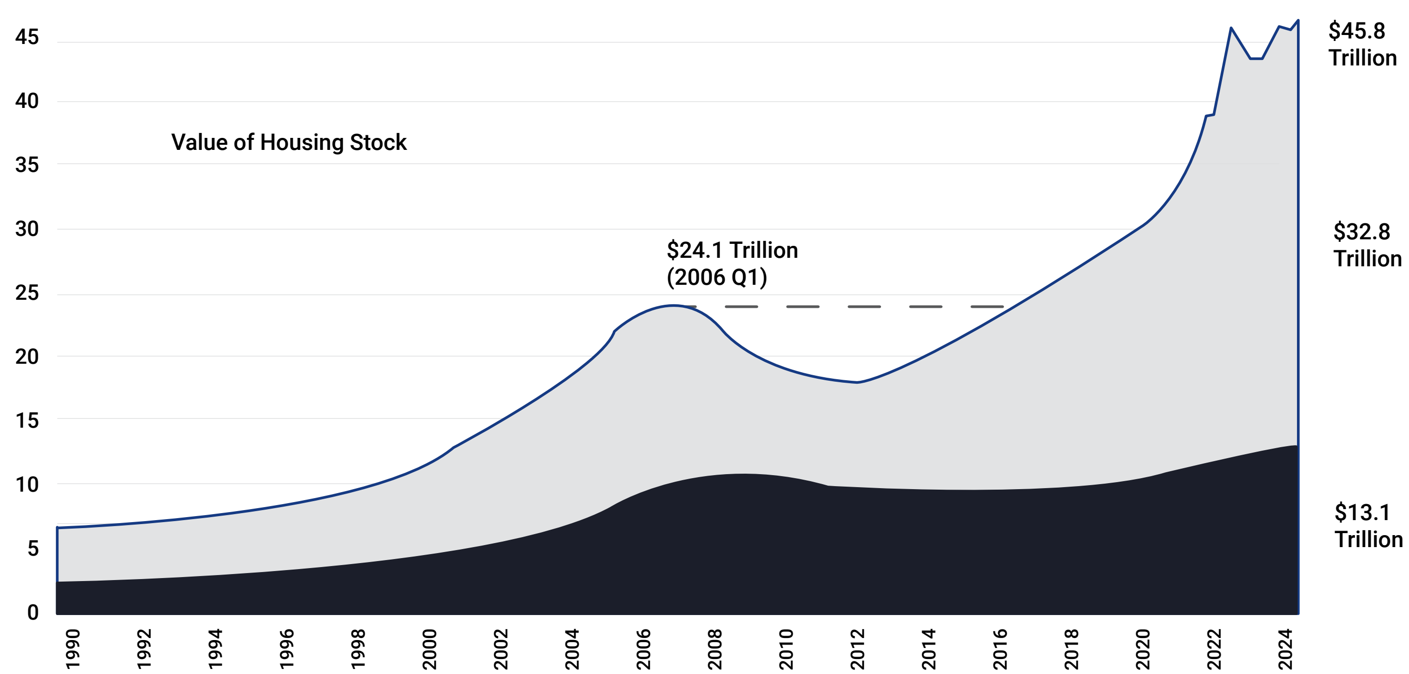
- Homeowners have a record amount of equity - approximately $33 trillion, according to Freddie Mac.

- Data from a variety of sources confirms that the overwhelming majority of homeowners in foreclosure have positive equity in their homes, and would be far better off selling their property in today's low inventory market instead of possibly losing their equity in a foreclosure auction.

Many homeowners don't know how much equity they have, and some don't know they have the option of selling their home while it's in foreclosure.

BOTTOM LINE

Agents can create a win / win scenario by helping distressed homeowners protect their equity in a traditional sale instead of potentially losing all or most of the equity in a foreclosure auction.



Source: New York Fed Consumer Credit Panel/Equifax

The Majority of Distressed Property Sales Today are **Transacted Before the Foreclosure Auction** - a Complete Reversal from Historic Trends

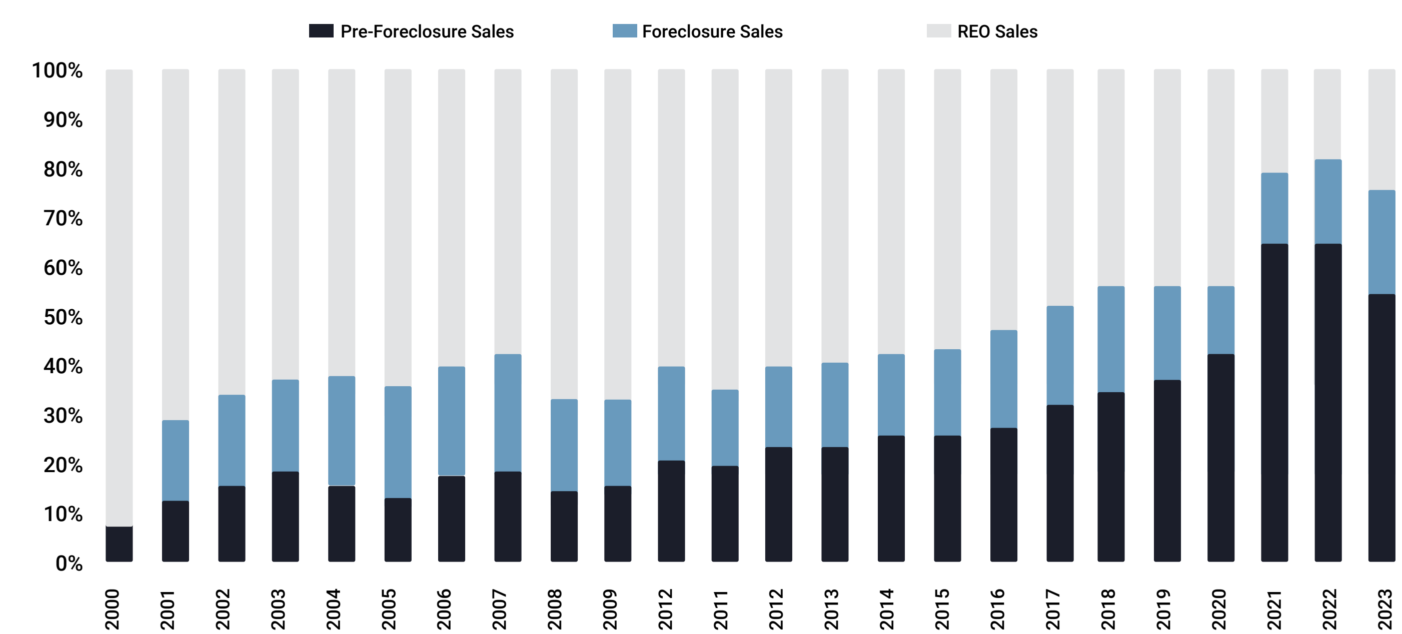
- Auction.com's analysis of ATTOM public record home sales data reveals that 55-65% of all distressed property sales occur during the "pre-foreclosure" period—after the homeowner receives a foreclosure notice but before the foreclosure auction.

- REO sales, traditionally the focus of most agents in the distressed property market, have declined from the majority to just 15-20% of sales. Foreclosure auctions account for the remaining 20%.

- Most purchases at foreclosure auctions are made by investors, who, according to CoreLogic, account for nearly 30% of all residential home purchases.

BOTTOM LINE

Today's market is radically different from the distressed property market of the past. Focusing on REO listings today probably isn't the best strategy.



Pre-Foreclosure Sales as Share of Distressed Market

Source: Auction.com, ATTOM Data

How Can Agents Expand Their Business With Distressed Property Sales?

While overall foreclosure activity is down slightly year-over-year and at about 60% of 2019 levels, consumer finances are feeling the strain of today's higher cost of living. Job growth has slowed, unemployment rates are rising, and wage growth has declined. Delinquency rates are steadily increasing in all consumer credit categories except mortgages, which may eventually be affected as well.

DON'T BANK ON **REO LISTINGS**

Historically, REO homes have dominated distressed property sales, but REO activity is now 70% lower than in 2019 and unlikely to increase dramatically soon.

DON'T IGNORE **THE INVESTOR**

Distressed homes sold at auction are primarily purchased by investors, who account for nearly a third of all residential home purchases. Agents who learn to work with these investors can enjoy a steady stream of business from both acquisitions and the subsequent resales of investment properties.

FISH **UPSTREAM**

Today, the majority of distressed property sales are from homeowners in the early stages of foreclosure, not from banks with repossessed properties. Agents should target these homeowners, help them determine their equity, and facilitate a sale before the foreclosure auction to protect their equity. These sales are similar to any other listing, except that the final proceeds must cover any past due amounts, fees, and fines owed to the lender.

OPPORTUNITY IN DISTRESSED PROPERTIES

In today's low inventory housing market, distressed properties present hidden opportunities for agents to find new listings. Despite the low level of foreclosure activity, there are hundreds of thousands of distressed properties nationwide. Most of these homeowners would benefit from selling their homes to protect their equity rather than losing it in a foreclosure auction. Agents who invest the effort in finding and reaching out to these distressed homeowners can significantly expand their business by adding distressed property sales to their practice.

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