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Stuck in Phoenix, the Epicenter of Housing Crisis

by Barry Wood
Thursday, July 28, 2011

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Commentary: It may take years for housing to bloom again in desert

In metropolitan Phoenix, two-thirds of all residential mortgages are underwater. Of these, some 200,000 are 50% larger than the current market value of the properties. Many homeowners have come to doubt whether they'll ever retrieve their lost equity.

In this city of 4 million, the 14th largest in the United States, the median home price is down 53% since the bubble peaked in 2006 to just over \$120,000. Only smaller cities such as Las Vegas and Orlando have witnessed equally catastrophic drops.

Paul Hickman, the head of the Arizona Bankers Association, says for Arizona the current recession is worse than the Great Depression of the 1930s. "Then," he told Cronkite News of Arizona State University, "our economy was young and we were just barely a state." Now, he says, Arizona is suffering because it became excessively dependent on a "one-dimensional housing economy."

Phoenix is no stranger to booms and busts. Home prices here fell in the late 1980s after the savings-and-loan debacle brought down several local developers, including the notorious Charles Keating of Keating Five fame. Now 88, Keating lives quietly in Phoenix, having served a 4½-year prison term for fraud after his Lincoln Savings and Loan collapsed in 1989.

The scope and severity of the current crisis easily eclipses that of the '80s and '90s.

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| 30 Year Fixed Jumbo | 5.00% | 4.99% |
| 5/1 ARM | 2.98% | 3.02% |

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Phoenix's population is now 45% larger and, as new suburbs encroached ever farther into the desert, residents have been squeezed by long commutes and the sharp run up in gas prices. Housing economist and retired ASU professor Jay Butler says of the current downturn, "nobody thought it could get this bad." He foresees no significant recovery for two more years.

Some local realtors dispute that pessimistic assessment. They point to strong existing home sales in June, up 22% according to the National Association of Realtors. It was the second consecutive month of strong sales, with the June figure the strongest recorded since December 2006.

But while sales may be up, prices are not. The NAR report says the median price of a home sold in the Phoenix area in June was down 13% from the same month in 2010. Realtor Robert Holt expects prices to remain weak because distressed properties are accounting for 64% of sales. With Phoenix having an inventory of over 120,000 empty or foreclosed homes, Holt expects "a tidal wave of foreclosures" will soon hit the market. He says with "overall mortgage delinquencies double and foreclosures eight times higher than historical norms, there is not going to be any easy or quick fix to the housing crisis."

Laurie Goodman, the respected mortgage market analyst at Amherst Securities, sees a similar problem nationally. Alarmed at what she believes is a 30-month supply of distressed properties overhanging the market, she told an American Enterprise Institute conference recently, "we're not making enough progress in liquidating bad loans."

Saying that only 30% of troubled loans have been resolved, she predicts that over the next six years as many as one out of every five mortgage holders in the country could lose their homes. With the number of distressed properties coming to market not keeping pace with a mounting inventory of troubled mortgages, and prospective buyers finding it hard to get credit, Goodman says the normal supply/demand function in housing is broken.

The result, she argues, is a likely boom in rental housing as strategic defaulters and evictees gravitate to cheaper rental homes. "Rental rates are rising," she says, "because renting is the only way to absorb the overhang."

In Phoenix, that is already happening. As home prices declined over the past year, rental rates rose 9%. Nearly half of the distressed homes sold over the past year have been turned into rentals. Michael Traylor, the director of the Arizona Housing Department, says "the shift from home ownership to rentals in the Valley will continue as home ownership shrinks more."

Ironically perhaps, the shift to rentals is occurring while home affordability has improved. With home prices way down and mortgage interest rates very low, this is the best time in at least 20 years to buy. In Phoenix prices have slid back to the levels that prevailed in 1998 or 2000.

Adam Stankus, a hotel manager in Tempe, and his schoolteacher wife are in the enviable

3/1 ARM

3.12% 3.12%

Source: [Bankrate](#)

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position of being prospective buyers in a buyers' market. They hope to purchase the home they currently rent in the suburb of Buckeye for under \$50,000. Lucky to have savings equal to a 20% down payment, Stankus believes their monthly mortgage payment will be well below their \$800 monthly rent.

The unexpectedly severe downturn over the last five years shows that nobody really knows the future direction of the housing market. Gary Shilling, a respected forecaster, is predicting that prices could fall another 20% nationally, on top of the 30% decline that has already occurred. Mark Zandi, meanwhile, of Moody's Analytics believes we're already bumping along the bottom and that prices could begin to recover next year.

Robert Holt, the north Phoenix realtor, argues persuasively that there won't be a price upturn in his market until the ingredients for a recovery are in place. These, he says, include population growth and an increase in jobs. Currently, that isn't happening. The local unemployment rate is stuck at around 8%. While below the national average, only 4,900 jobs were added in the past year. Given all that, ASU professor Butler says the "housing recovery in Phoenix is likely to improve at only a glacial pace."

Barry Wood is North American economics correspondent for RTHK radio in Hong Kong.

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Bob B 4 minutes ago | [Report Abuse](#)

0   0

Thanks Obama! That "hope & change" has worked out GREAT.

And CONgress... both D and R .. throw them all out. They have all failed us. Right now Dianne Feinstein is in a secret session telling ISPs that they need to spy more on customers and in typical Dem fashion is masking it as a law to protect children. Congress is way out of touch with what's important.. and our country is falling apart.

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A Yahoo! User 10 minutes ago | [Report Abuse](#)



Since Mr. O is at the White House nothing goes on the right direction and everyday something bad "REAL BAD" comes up, so the solution: "IMPEACH OBAMA BEFORE IT IS TOO LATE"

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Dan 11 minutes ago | [Report Abuse](#)



The crisis is not the housing market, it's the job market. While D.C. and the media keep us caught up in democrat vs. republican and whose to blaim and who's better they crisis is that Obama has a "jobs council" led by Jeff Immelt, CEO of GE and I haven't heard them create one job nor show a list of the sectors, existing or new, that will create jobs and at what pay level. Nancy Pelosi made a comment yesterday that "we need to get the debt deal done so we can focus on job creation....really? Like those is DC have some idea as to how to do this? Have they been holding back for the last 3 years? This is an American crisis not a political party argument and unless you dig for the truth you can't find it on the front page. The job crisis has been developing for the past 20 years as robotics and computers required less workers for the same or more output. Then combine this with emerging markets growth and it gets easier to send jobs to where the demand is - that's just capitalism. If there are new market sectors (like when bio-tech emerged) these could easily be based abroad - still no new jobs. Without adequate job income Americans can't buy or rent.

▶ Reply



Neely 12 minutes ago | [Report Abuse](#)



Even with 8% unemployment rate in AZ, the jobs that are available pay much below what other states in the north offer. I have looked for a job in AZ and there is nothing worth moving to.

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Jessica Wilson 16 minutes ago | [Report Abuse](#)



I buy almost everything except food and clothing from online auctions. Most people aren't aware of the almost unbelievable deals that they can get from online auction sites.

The site that has the best deals is savedmore.com

and I checked with the Better Business Bureau and was told that it is all legit.

How they can sell gift cards, laptops, cameras, and all kinds of goodies that we all want for 50-90% off, I don't know. I do know that I bought my son an iPad there for less than \$100 and my husband a \$250 Loews gift cards for \$48.

Why would I even think about shopping anywhere else?

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American Small Business O ... 18 minutes ago | [Report Abuse](#)



In Denver many of the bargain homes are beaters and are purchased by investors with contractors in tow so they buy them cheap, rent them to cash flow, and buy another. It's probably the same in Phoenix. And a realtor may lie to you about how soon the market will recover (two years my arse) but in many former boom towns the real truth is NEVER.

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Antonio Gracia 20 minutes ago | [Report Abuse](#)



Impeach OBAMA before it gets worse

▶ Reply



Jack Plummer 23 minutes ago | [Report Abuse](#)

0 0

Why do you liberals keep electing these people like Barney Franks and Charley Rangle? Franks was the one who said when Bush was president " All is fine here with Fanny and Freddie. And Rangle is a tax evader.

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Jane X 26 minutes ago | [Report Abuse](#)

0 0

OMG ,my best friend ,she just has announced her wedding with a millionaire young man who is the CEO of a MNC !they date via -
----RichFriends.org- ..it is the largest and best club for wealthy people and their admirers to chat online. ...you don't have to be rich there ,but you can meet one ,maybe you wanna check it out or tell your friends
(not booked-gains on assets are not gains until sold and you have the cash) minus inflation must exceed 5% after taxes to break even. This has never happened in any countries history when a country does not have -----
-

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Ethan T 26 minutes ago | [Report Abuse](#)

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It's the inevitable result of many years of government pumping the housing market as an "investment" through use of artificially low interest rates and loopholes for profits that do not exist in any other market. I say end all these insane policies, let the market completely crash, then recover at a level that people can afford on prevailing wages with no government pumping, and no tax breaks. Additional investment in housing, at this point, is mal-investment. It does not produce anything and too many of them are sitting empty. Every empty house should be filled at whatever price the market permits.

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