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Buyers flocking to cheap foreclosed homes

*75 comments by **Catherine Reagor** - Mar. 22, 2009 12:00 AM*
The Arizona Republic

A Glendale home that sold less than two years ago for $259,000 sold again three months ago for $113,000. A Phoenix home that fetched $190,000 two years ago just went for $45,900. A Queen Creek home sold for nearly $275,000 when it was built in 2005. Last month's price: $78,000.

If there's an upside to the Valley's growing foreclosure problem, it's the number of home bargains now available.

Lenders saddled by a growing portfolio of foreclosed properties are selling homes for prices not seen in metropolitan Phoenix for a decade.

"I haven't seen pricing like this ever," said Beth Jo Zeitzer, president of the foreclosure real-estate brokerage Phoenix-based R.O.I Properties. "Valley foreclosure properties are plentiful and priced to sell."

Almost half of all Valley home sales last year were foreclosed homes resold by lenders, according to an analysis of sales data by *The Arizona Republic*.

Investors, first-time buyers, retirees and people moving up to bigger homes are all taking advantage. Deals can be found on nearly new homes on the Valley's fringes, fixer-uppers in historic neighborhoods in central Phoenix, new and old condominiums from Mesa to Glendale, and even luxury homes in Scottsdale.

There are some potential pitfalls to buying foreclosure homes: bidding wars, repair costs, financing and the risk that home prices will continue to fall. But foreclosures do offer an opportunity to buy Valley homes at prices unthinkable just a few years ago.

"There's a lot of properties to choose from, particularly in the $100,000 range," Zeitzer said.

Finding deals

Nearly half of Valley homes for sale are properties that lenders have taken back or that are about to go into foreclosure, according to the Cromford Report, which analyzes area real-estate data. Market watchers expect that number to increase in the next few months as the foreclosure moratoriums put in place by big lenders begin to expire.

Prospective buyers can find foreclosed properties on most Internet sites that list houses for sale and by contacting real-estate agents.

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hoped-for resale price? Are there rentals that might drive down your rental income? Are there empty homes for sale that soon might become foreclosures themselves?

"Look at other homes in the area, particularly on the same block," said Julie Bieganski, a real estate agent with 1st USA Realty. "Check out the schools, the shopping and the roads." In January, she and her husband paid $63,000 for a foreclosed home in Phoenix that they plan to sell or rent. More than $261,000 was owed on the home when it was foreclosed on last fall.

"Try to buy the ugliest home on the block," she said.

The most popular segment of the foreclosure market now is homes priced below $100,000. Many of the best deals can be found in the West Valley, south Phoenix and Pinal County, the areas hurt most by the housing-market downturn.

"You are going to find the real deals on the homes with the most (physical) damage in the neighborhoods with the highest foreclosure rates," said Realty Executives agent Brett Barry, who says 70 percent of his business now is listing foreclosures. "Those are the homes that draw the multiple offers."

He said lenders don't want to spend more than $15,000 to $20,000 to fix up a foreclosed home for a sale. So if a home has extensive damage, the price is discounted more. Some foreclosed homes have been stripped of appliances, light fixtures, tile and even toilets by former residents.

Bob Ortega bought a foreclosed home in Queen Creek for $90,000 late last year. Similar homes in the area that aren't in foreclosure were listed for more than $150,000. But he had to buy a new stove, refrigerator, washer and dryer and then repaint and carpet the house.

"The last owners must have been mad because they did some real damage," he said. "It was a big headache, but I think I ended up with a deal."

Unfortunately, he is seeing other foreclosed homes in his neighborhood now selling for $10,000 to $20,000 less than he paid.

Buying

There are two ways to buy a foreclosed home now: directly from a lender by working with a real-estate agent or at an auction.

When working with an agent, it helps to find someone who knows how to negotiate with lenders. Most lenders have downsized their staff and may not respond quickly to offers on foreclosed homes.

In January, Brady Switzer bought a 2,290-square-foot foreclosure home in Litchfield Park.

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haggled with them and got it for $190,000," he said. "The lender was fairly easy to deal with."

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"Wait for the auctions if you can," he said. "The deals are better. But it's extremely important to inspect the properties and know your top bid and stop there."

Typically, photographs, addresses, information on the size of the homes and opening bids are available on the auction firm's Web site. Most auction firms also hold open houses on foreclosed properties, but the viewings are limited. Buyers can get their own appraisals on foreclosed homes and use those to negotiate with lenders.

"Due to the increase interest in foreclosures, lenders are now being flooded with offers," Zeitzer said.

She advises buyers to keep their offers simple, without too many demands or contingencies.

Financing

A foreclosure sale can close more quickly when the buyer has financing lined up before making an offer.

More buyers are paying with cash now because the mortgage industry, battered by loan defaults, is making financing tougher to obtain, especially for people who don't plan to live in the home. Some lenders will discount foreclosure prices even more for cash deals. More than 30 percent of all Valley homes sales in January were paid for with cash, compared with 19 percent in January 2008.

Financing is available to buy foreclosed homes, particularly for buyers who are going to live in them.

Jay Luber, president of Phoenix-based Galaxy Lending, said borrowers with good credit can usually take out a conventional loan with a 5 percent down payment.

For buyers who plan to live in the home, the Federal Housing Administration offers mortgages that require a 3.5 percent down payment. This program has a sales price limit of $346,000 in Arizona.

Both of those loans require the house to be in decent shape, and the loans don't usually come with money for renovations.

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"Homeowners can take the purchase price of a foreclosure home and add the home's rehab cost to come up with an adjusted sales price," said Reg Gustin of Mesa-based Sun American Mortgage. "Buyers can finance the adjusted amount through FHA if the property appraises for that much."

These loans require the buyer to keep the home for 90 days.

Other financing help for foreclosure home buyers is coming soon from the federal government. A portion of the $121 million coming to Arizona next month from the federal Neighborhood Stabilization program includes money to help people buy foreclosed homes. Specifics on the program vary by city. More information will be available soon on the Arizona Department of Housing's Web site.

The city of Phoenix plans to use a portion of its neighborhood funds to give qualifying buyers $15,000 to cover the down payment or closing cost on a foreclosed home.

Who's buying

Many investors bought Valley foreclosed homes during the past year, and more investors are jumping into the market as prices continue to fall.

Hossien Safaie of Keller Williams Arizona Realty said he works to find foreclosed homes for clients that can be fixed up in four weeks and then resold quickly before being undercut in price by new foreclosures.

"The last foreclosure home I worked with a client to buy and fix up was in north Phoenix," he said. "It resold in a day for a $60,000 profit. The day we bought the foreclosure house, we had contractors ready and started marketing it for resale."

Some market watchers are concerned about too many investors buying foreclosed homes.

"It's great that foreclosure homes are selling and investors are interested," said Margie O'Campo de Castillo of Arizona Dream Realty. "But too many investors got us into the current mess."

For first-time buyers, the foreclosures are a blessing of sorts.

O'Campo recently worked with a young family who bought their first home in El Mirage for $86,900. The house sold for more than twice that much when it was built a few years ago.

"Valley foreclosures are one family's tragedy and another family's opportunity now," O'Campo said.

Market overview

Foreclosure-resale deals aren't likely to go away anytime soon, and in some areas the

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deals are getting even better.

Only about half of the 50,000 Valley homes to go into foreclosure during the past year have resold.

Tom Ruff, an analyst with the real-estate research firm Information Market, recently looked at buying a small home in Phoenix.

The property sold for $232,000 in March 2005. The lender foreclosed on the home in early February and turned around and listed it for $45,900.

"The bungalow sold within hours, and there were multiple cash offers on the property." Ruff said.

Last month, foreclosure sales climbed to account for almost 70 percent of all Valley resales, a figure that may alarm fretful homeowners. But the figure also suggests better things ahead.

"Homeowners with foreclosures in their neighborhood might not like what these sales with low prices do to their values, but these homes must be resold and fixed up for the market to come back," said Arizona housing analyst RL Brown. "The good news is that the foreclosure homes are selling."

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