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## Virginia Still Feeling Effects of Housing Crisis

By Christine Chmura

*This column is a condensed version of "Foreclosures Dampen the Economic Recovery — The 2010-2011 Economic Forecast" written for and soon to be published by the Thomas Jefferson Institute.*

6/9/2011 – Home prices took a turn for the worse in the nation and in the Richmond area earlier this year.

Prices fell 5.5 percent in the U.S. in the first quarter compared with the same period a year ago, while falling 5.4 percent in the Richmond region during the same time frame. In the fourth quarter, however, prices dropped only 4.2 percent in the U.S. and 3.3 percent in the Richmond area, compared with the same period a year earlier, according to the Federal Housing Finance Agency data.

Although the economy is growing at a modest pace and starting to create some demand for housing, the bigger problem is on the supply side. Not surprisingly, foreclosures are the culprit.

Foreclosure rates skyrocketed after 2007 when only 0.9 percent of all mortgages in the country were in foreclosure. Rates jumped to 2.6 percent in 2009 and although they appear to have leveled off, they remain elevated with 3.2 percent of mortgages in the nation in foreclosure at the end of November, according to CoreLogic, a private real estate data firm.

The severity of the foreclosure crisis varies greatly by state and is highly concentrated in a handful of states – Florida, Nevada, New Jersey, Illinois, California, and Arizona. Those six states had double-digit foreclosures per 1,000 households in November 2010, while the U.S. average was 8.5 mortgages per 1,000 households. Virginia had an average of four mortgages per 1,000 households.

Ten states with the highest foreclosure rates accounted for 61 percent of all foreclosures in the country in November, with the top five states accounting for half of all foreclosures. Florida alone had 23 percent of all foreclosures in the country.

The fact that Virginia is doing better than the national average does not mean Virginia has escaped the foreclosure crisis unscathed. In March, 2011, one in every 742 housing units in Virginia filed for foreclosure – better than national average of one in 542, according to data from online foreclosure researcher RealtyTrac. Regions where homes are least affordable are those that experienced heightened foreclosure activity.

Nearly 90 percent of foreclosures in Virginia were in the Northern Virginia, Richmond, and Hampton Roads areas. In Chesterfield County, one in 283 housing units filed for foreclosure – the highest rate in the state in March – according to RealtyTrac.

Until the excess foreclosed properties are digested by the marketplace, housing activity will be less likely to rebound. Based on the total number of foreclosed mortgages and average distressed sales in November, 2010, it will take 18 months to clear the foreclosed homes currently on the national market, according to a CoreLogic report. In Virginia, 13 months are needed to clear the current glut of foreclosed homes.

The increased supply of homes on the market and lack of demand continues to depress home prices, thus preventing a speedy recovery of the housing market. Almost two years after the recession officially ended, the increased supply of homes on the market continues to push housing prices down. At the end of 2010, home prices dropped 11 percent nationally from the mid-2007 peak.

There is light at the end of the tunnel. Based on our modeling, home prices for both the nation and Virginia could start growing again as early as the fall 2011.

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