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Looking ahead: Real estate market 2011

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With the start of the new year upon us, it is time to reflect on the past year and see what is in store for the real estate market in 2011.

While 2010 continued the "foreclosure boom," this also meant a flood of homes were on the real estate market. The increased inventory, combined with reduced home prices, low interest rates and a new homeowner tax credit were the incentives some consumers needed to jump back into the real estate market.

However, 2010 left many homeowners underwater with houses they could not sell and mortgages they could not afford. As we enter 2011, the forecast does not paint a brighter picture.

There were many programs in place at the start of 2010 to help increase activity in the real estate industry. The tax credit for first-time home buyers gave a boost to home sales in the first quarter. While this temporary tax credit increased home sales, the housing market became stagnant once again after the program ended.

The second quarter brought a decrease in mortgage rates, which spurred a refinance market that lasted through October. With historic low mortgage rates loan origination was at a high through the summer and fall, at times reaching levels not seen since 2006.

Overall 2010 was a more stable year than the prior two, but the real estate market was still classified as a buyer's market. As we enter 2011 there is a large volume of foreclosed properties available and a growing number of short sales still taking place across the country.

Other programs, such as the Home Affordable Refinance Program, have not been as successful as the government had hoped; with only about 25 percent of the eligible homeowners taking advantage of this program.

While the HARP program helped many Americans stay in their homes by reworking their mortgages, many are still struggling to make their payments or have gone into foreclosure.

In the Rochester area, we have had a much more stable real estate market. We largely have been spared of widespread depreciation in home values or large volumes of foreclosures. So what does 2011 have in store for us? Unfortunately many economists see 2011 much like 2010; meaning a bumpy road, at best.

While there is a large supply of homes to be purchased, strict lending standards have pushed many buyers out of the real estate market. Therefore, the number of people who can qualify for a mortgage has declined. Additionally, with the high unemployment rate, many people able to purchase a home are not willing to make the substantial investment without a sense of job security. These factors, combined with reports of rising interest rates and local gas prices hitting $5 per gallon, continue to make consumers wary of new investments.

On the national level, there are still four more waves of potential foreclosures that will hit in 2011. They include the 10-year Adjustable Rate Mortgages from 2001, the seven-year ARMs from 2004, the five-year ARMs from 2006, and a few three-year ARMs from 2008. This will be in addition to the four waves of ARMs that reset in the year 2010 and many other types of creative financing, better known today as toxic mortgages.

There is also speculation that many lenders have been holding back on listing foreclosed properties for sale. They could be hoping for home prices to rise, to work through some of the current inventory or for more staff to handle the volume. Whatever the reason, another deluge of foreclosed homes will not help the outlook for 2011.

Unfortunately, tightening credit standards and high unemployment did not allow a large sector of the population to take advantage of the incentives 2010 had to offer. It is unlikely that credit will start to freely flow again in 2011, allowing only a small percentage of consumers to take advantage of low interest rates and declining home prices.

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