

# Foreclosures Up, But Still Low in Pacific Palisades

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**F**oreclosures and the current mortgage crisis are two of the biggest issues in the news today.

"Foreclosures Up 799%" was one recent headline in the Los Angeles Times. These startling headlines can scare a lot of people. Sellers will get nervous; buyers will think, "Why buy now with all these foreclosures?" On the surface it may appear like a horrible time to buy.

But let's look at the actual statistics to get the real picture. Statewide it is true that the number of homes that are in default is very high. For all of California, mortgage defaults are close to the height of the last peak—with 53,943 defaults filed last quarter as compared to 61,541 in first quarter 1996. After three months of paying your mortgage late, an NOD (Notice of Default) is sent from the lender. Then it takes another few months for the Notice of Trustee Sale and ultimately the property possibly becoming bank owned.

At closer look, however, Los Angeles County, when compared with the rest of the state, actually has one of the lowest mortgage default rates, with 10,393 Notices of Default filed last quarter. While California is within 14 percent of its peak mortgage default rate, Los Angeles County is less than 50 percent of the height of past default activity.

This illustrates the depth of our last recession in the mid-1990s as well as the strength of today's L.A. housing market. The main difference between this market and the last one is that our inventory levels

All Home Sales by County	# Sold Aug-06	# Sold Aug-07	Percentage Change	Median Aug-06	Median Aug-07	Percentage Change
Los Angeles	10,140	6,647	-34.4%	\$520,000	\$550,000	5.8%
Orange	3,456	2,285	-33.9%	\$630,000	\$642,250	1.9%
Riverside	5,292	2,834	-46.4%	\$420,000	\$394,523	-6.1%
San Bernardino	3,970	2,096	-47.2%	\$366,000	\$360,000	-1.6%
San Diego	3,853	3,104	-19.4%	\$495,000	\$475,000	-4.0%
Ventura	1,146	789	-31.2%	\$600,000	\$575,000	-4.2%
Total SoCal	27,857	17,755	-36.3%	\$487,000	\$500,000	2.7%

(i.e., the number of homes on the market) are still so low. With only 107 homes on the market in Pacific Palisades (as of October 5), there are still significantly more buyers who want to live here than there are homes for sale.

The areas hit the hardest are those where many buyers did 100 percent financing, such as Riverside, San Bernardino, and Sacramento Counties, especially areas with many new home developments.

But Los Angeles County median home prices in August 2007 actually APPRECIATED 5.8 percent from one year ago. (See the chart above.)

**S**o while there are 10,393 Notices of Default in Los Angeles County, in Pacific Palisades there are only 18 properties that are in notice-of-default stage and five that are bank owned. One-third of these are condos, and the rest are single-family homes.

I reported in a *Palisadian-Post* article in April 2007 (six months ago) that at that time there were nine properties in default and seven that were bank owned. Though we have doubled the number of homes in default, we are still quite low in comparison to the approximately

8,500 homes in the Palisades.

So, what could affect our inventory levels and Notices of Default? All the adjustable rate mortgages that are coming due could affect our real estate market. Six months from now (March 2008), \$110 billion of adjustable mortgages for the entire U.S.—a record amount—will come up for readjustment. Many borrowers who had locked in low introductory fixed rates in 2004 and 2005 for a short-term fixed period will see their monthly payment going up substantially. The chart at right shows the dollar amounts (in billions of dollars) of mortgage resets that will hit this year and next year in the U.S. In comparison, in January 2007 there was \$22 billion worth of mortgages going from fixed to adjustable, where in January 2008 there will be \$80 billion.

While some people are recommending that buyers wait to purchase a home—since there should be more inventory and some possible good values coming on—I am not so sure, especially if you want to buy within the next six months. It usually takes at least three to five months of sticker

July 2007	\$43
August	\$52
September	\$58
October	\$55
November	\$52
December	\$58
Jan 2008	\$80
February	\$88
March	\$110
April	\$92
May	\$76
June	\$75
July	\$50

shock before a borrower feels the increased mortgage payment and starts paying their mortgage late. So with March 2008 being the peak of mortgage resets, it could take another eight to twelve months to see these properties come available. During that time, there is no way to predict whether mortgage rates will go up or down.

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