U.S. Underwater Mortgages May Reach 30%, Zillow Says

By Dan Levy

Aug. 11 (Bloomberg) -- Almost one-quarter of U.S. mortgage holders owed more than their homes were worth in the second quarter and that figure may rise to as much as 30 percent by mid-2010 as job losses and foreclosures climb, Zillow.com said.

Homeowners are being hurt by price declines. The estimated medianvalue for single-family houses slid to $186,500 in the period, a 12 percent drop from a year earlier and the 10th consecutive quarterly decrease, the Seattle-based real estate data service said in a report today.

"The negative-equity rate will rise and spin off more foreclosures,"Stan Humphries, Zillow's chief economist, said in an interview. "I see a substantial downside risk to prices and don't think we'll see a bottom until the middle of next year."

The U.S. housing market is being hindered even as the pace of job cuts and price declines slows. Payrolls fell by 247,000 in July, after a 443,000 loss in June, the Labor Department said. Home prices in 20 major cities declined 17 percent in May from a year earlier, the smallest drop in nine months, according to the S&P/Case-Shiller index.

Home values dipped in the second quarter from a year earlier in almost 90 percent of the 161 U.S. metropolitan areas surveyed by Zillow, the company said. Twenty-three percent of mortgage holders were underwater at the end of June, Zillow said.

Deutsche Bank Forecast

The percentage of people owing more than their properties are worth may increase to almost half of U.S. mortgage holders before the housing recession ends, Deutsche Bank AG said Aug. 5.

About 25 million homes, or 48 percent of mortgaged properties, will be underwater as prices drop through the first quarter of 2011,Karen Weaver and Ying Shen, analysts in New York at Deutsche Bank, wrote in the report.

A glut of unsold homes is also pushing down prices. The 3.8 million homes for sale in June would take 9.4 months to sell at the current pace of transactions, according to the National Association of Realtors. The inventory turnover rate averaged 4.5 months in the six years from 2000 to 2005.

More than 18.7 million homes, includingforeclosures, residences for sale and vacation homes, stood vacant in the U.S. during the second quarter. That compared with 18.6 million a year earlier, the U.S. Census Bureau said July 24.

"We haven't seen a bottom in home prices, and it could take into 2011 before we see equilibrium in the market," saidMichelle Meyer, an economist at Barclays Capital in New York.

Foreclosure Sales

In June, foreclosures accounted for 22 percent of total U.S. home sales, and 29 percent of homes sold were purchased for less than what the owner originally paid, according to Zillow.

The unemployment rate declined to 9.4 percent last month from 9.5 percent in June.

Values declined the most in Merced, California, tumbling 40 percent to an estimated $106,500, Zillow said. El Centro, California, followed with a 38 percent drop to $117,400. Las Vegas was third with a 35 percent decline to $140,500.

Madera and Modesto, in California, sank 34 percent to $144,400 and 31 percent to $140,500, respectively.

Values decreased 12 percent to an estimated $361,000 in the New York City area; 12 percent to $318,000 in Washington; 15 percent to $393,800 in Los Angeles; 13 percent to $202,400 in Chicago; 6.4 percent to $316,000 in Boston; 4.6 percent to $132,600 in Dallas; and 15 percent to $490,500 in San Francisco, according to Zillow.

Fayetteville, North Carolina, had the biggest increase in median value, rising 13 percent to an estimated $120,600. Oklahoma City gained 4.8 percent to $118,700; Binghamton, New York, advanced 4.5 percent to $112,300; Burlington, North Carolina, added 4.4 percent to $124,200;

and Gainesville, Georgia, climbed 4.2 percent to $139,100, according to Zillow.

The company compiles data from multiple listing services, county assessors and recorders, as well as its users.

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