



Distressed Properties and the Triangle

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A look at distressed property in the Triangle...

What constitutes a distressed property?

- A distressed property is property that has lost its potential to sold at a normal cost or developed under normal conditions.

What we have experienced...

At our Real Estate peak, it was assumed that we could buy land and build homes anywhere in the Triangle – a home's sales price could be determined based on the land price.

As the mortgage market started to soften, a domino effect emerged. Hidden inventory began to skew our available inventory, as we were still building.

This led to a decreased demand in homes, the decreased demand for homes lead to a reduction in sales prices, the reduction in sales prices forced builders to fail, and failing builders ultimately lead to failed subdivisions.

All this was coupled with increased unemployment, declining consumer confidence and tighter lending.

What we saw...

Some examples of distressed factors that we saw in the Triangle include:

- Residential foreclosures
- The “upside down” homeowner
- Frozen construction & builders’ unfinished inventory
- Dormant infrastructures (partially developed subdivisions with infrastructure failures)
- Land/lot inventory (builder dropped projects)
- Developers unable to develop property (in some cases even when they had a builder willing to build)
- HOAs facing bankruptcy
- Tightening of credit as the banks and lending institutions met increased failures in their Real Estate portfolios

Examples of communities sitting idle and unmaintained as a result of the distressed market





Pricing - Housing data from "Builder Online" shows a huge difference in the price per square foot between regular properties and distressed properties (national average)

Distressed Property Discount



Other effects...

- The commercial market is not immune, and we face some of the same impacts of the residential foreclosure market.
- Destructive lending emerged, which targeted commercial loans that had assets greater than the market value.
- We also saw the tax credit, an intervention which inflated the market with increased re-sales which was not the normal market condition needed for equilibrium to occur.

Rebuilding...

As a result, the residential Real Estate market came to a standstill and a slow rebuilding phase began to take place.

- Builders and Banks started working out deals and properties began changing hands
- What became clear was that the banks were not able to go back to business as usual - we had to become more creative with things such as participation loans and private funding

ForeverHome focused on recovery through partnership relationships with banks and businesses. A case study can be seen at Weston Place in Cary.



A sampling of the ForeverHome communities that have resulted from distressed factors in the marketplace...



Recovery

As the demand for residential housing starts to re-establish itself, we find the banks (previously “paralyzed”) releasing their assets and the market moving towards a slow recovery.

Adjusted sales prices and increased demand are emerging close to the RTP core, and slowly moving outwards.

In order to fully recover, inventories must become more in-line with demand – we need to continue to look at the hidden inventory as there is still a high number of potential foreclosures. When that number evens out, we will recover.

Data from the Real Estate Center at Texas A&M shows the number of permits in Raleigh, Durham & Chapel Hill over the last five years...

Year	Number of Permits
2005	17,913
2006	16,758
2007	15,436
2008	8,560
2009	5,634
2010	6,108