Weekly Real Estate & Economic Roundup

Highlights & Observations from Select Reports

August 8 2012 by William L. Pittenger, MAI, SRA

Bankruptcy Filings Down Year Over Year. According to the U.S. Bankruptcy Courts, personal bankruptcies rose 1.1% from the first quarter to the second quarter of 2012 but declined in the second quarter as measured year over year. There were 1.3 million petitions (down 14.2%) in the second quarter as compared to the same period last year. There have been year over year declines now for seven consecutive quarters. The overall decline in personal filings has slowed but they remain significantly lower than their 2010 peak. Personal Chapter 7 petitions fell the most (15.9%) since June a year ago. Business filings have now declined for 12 consecutive quarters. The quarter over quarter decline was 5.7%. While the number of filings is still elevated the trend is moving in the right direction.

The Federal Reserve Senior Loan Officer Opinion Survey showed that about 9.5% of reporting banks eased standards for commercial and industrial loans for medium and large businesses in the second quarter. The other 90.5% reported that standards were unchanged. About 4.9% of reporting banks eased standards for small business with the largest share of banks unchanged. In the residential mortgage sector, standards for prime mortgages were unchanged but standards tightened for non-traditional mortgage products. About 25% of banks reported slightly stronger demand while 16% reported modestly weaker demand. For consumer lines of business, 23% of reporting banks reported easing standards for auto loans to individuals but only 11% reported easing credit card standards. Consumer loan demand reportedly increased modestly for all types of consumer loan products in the second quarter. There has been very little easing of standards in the commercial real estate sector as banks continue to work though recession driven loan losses and face little discernible demand for new CRE product.

Is an FHA Bailout in our nation's future? The Federal Housing Administration (FHA) was created during The Great Depression of the 1930s. Today it guarantees loans to borrowers with spotty credit and low down payments of as little as 3.5%. In return, it charges 1.75% of the principal up front plus a modest annual premium to help insure against loss. The FHA lost market share in the early 2000s as subprime lenders offered even easier terms. By 2007, however, the subprime sector had collapsed leaving the FHA as the only game in town. The FHA almost singlehandedly kept the housing market functioning during the credit crunch that began in 2008. In 2006, the FHA insured loans worth about $52 billion. By 2009 that number was $330 billion. Today, about 700,000 of those loans, worth some $100 billion are viewed as questionable. Buried deep in the projections of the Office of Management and Budget (OMB), is a line item of $668 million for a potential bailout of the FHA. While the FHA appears reasonably sound today, the large number of questionable loans suggests it may not stay that way. Recently, the FHA has taken aggressive steps to improve its fiscal health. It has tightened lending standards and has become much more aggressive with lenders who commit fraud or even cut corners. Nevertheless, just the risky nature of the business model is such that a downturn in the economy could necessitate a bailout.

Hotel Occupancy Rose in the week ending July 28, 2012. According to Smith Travel Research (STR), hotel occupancy jumped 3.3% to 75.1% putting broad based occupancy at its highest level since 2007. At the same time, the average daily rate (ADR) rose 4.8% to $108.95 while revenue per available room (REVPAR) rose to $81.95. Overall occupancy is back to pre-recession "normal" and will likely move higher as there is very little new construction underway. Lenders currently have little appetite for hotel loans.

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