Some signs of life in housing, credit drought goes on

CHICAGO (Reuters) - Like an increasing number of well-heeled Americans, the Hodgsons decided it was time to buy a new home, even if most of the U.S. housing market remains in the dumps.

After years in an apartment building, "we were just tired of sharing space with other people," says Cari Hodgson, 32. "It was time to have space of our own."

She and her commodities trader husband sold the condo and recently bought a $1.2 million, five-bedroom home in Chicago's north side, sealing the deal with the kind of big down-payment that is heating up the high-end of the U.S. property market.

Cari, a part-time nurse, declined to say how much of their own money the couple put into the house. But she did say the mortgage was less than a so-called jumbo loan, which are bigger than most U.S. mortgages and currently start at $730,000.

That means the Hodgsons put down at least 40 percent of the house's value, a chunk far out of reach for most Americans.

"We were told by a number of people that it was very difficult to qualify for a jumbo loan," Cari Hodgson said. "So we didn't even try to get one."

Four years after U.S. housing prices began to nose-dive, eventually triggering a global financial crisis, signs of life are appearing at the top and the bottom ends of the market.

By contrast, a sustained recovery remains far off for the vast middle ground of the U.S. housing sector.

Affluent Americans are feeling more secure as the impact of the recession fades and the stock market racks up big gains.

"People who have decent income are saying, maybe I can trade up, buy a better property," said Bill Hardin, director of the real estate program at Florida International University.

"Some people are even saying, I'm willing to take a loss on the property I'm selling now to get something I couldn't buy during the housing peak."

Sales of homes worth over $1 million, which account for about 1.5 percent of total U.S. sales, have risen in most states so far in 2011.

Realtors, brokers and others in the housing industry report the first bidding wars for expensive homes since the crash.

"There is a surge of confidence among high-end buyers and we're unfortunately short on inventory," said Pamela Liebman, chief executive of New York property firm The Corcoran Group.

Her firm saw a doubling in the sale of luxury co-ops, worth more than $10 million, in the first three months of 2011.

At the bottom end, homes are also on the move as investors pay cash for foreclosed properties to rent them out.

It's a different story in the middle of the market.

Properties worth between $100,000 and $500,000 make up more than 60 percent of U.S. housing. Sales in that category in March were down across every region of America from the same month a year earlier, when tax breaks were propping up demand.

Foreclosures and short sales -- whereby struggling homeowners sell their homes for below what they owe, with the consent of their lenders -- are still a big drag. Credit remains tight and middle-income families are more pessimistic than their wealthier compatriots about the economy.

So this year's Spring selling season, when buyers typically start to look for a home after winter, has mostly been a dud.

Access to credit is cited as a broad problem. While the rich can simply put more money down, for most would-be buyers the need for more 'skin in the game' is a deal-breaker.

Realtors and brokers complain that the credit drought is as extreme as the flood of loose lending of the boom years.

"The pendulum has swung from too far to the left to too far to the right," Corcoran's Liebman said. "We need to find some balance in lending."

"IT'S HARD TO BE POSITIVE"

On a recent sunny Sunday afternoon, in Leawood, near Kansas City, realtor Ted DeVore patiently waited inside an elegant ranch home priced at $344,900, eager to point out the lush backyard, new roof, remodeled kitchen and updated bathrooms.

But most of the visitors to the open house were curious neighbors, not would-be buyers.

Middle-income Americans in Middle America are not yet ready to get back into the market. Homes that do sell in the Kansas City area are often going for between 20 percent to 30 percent below the listed price.

"There are so many people questioning things right now, asking themselves, am I going to have my job in six months?" DeVore said, affable but seemingly resigned to a slow Spring. "The indicators are very mixed for the whole economy and the real estate market very closely follows the overall economy."

"It's hard to be positive," he added.

Unemployment of 8.8 percent in March was down from above 10 percent in 2009 but still high enough to worry many Americans.

According to RealtyTrac, which publishes foreclosure statistics, the number of foreclosure filings fell 27 percent in the first quarter from a year earlier but still affected nearly one in every 200 U.S. homes.

And although the National Association of Realtors (NAR) said existing home sales rose 3.7 percent in March, the median home price nationwide was down 5.9 percent from March 2010.

That has few housing market insiders willing to say the worst U.S. housing downturn since the Great Depression has played itself out, despite government support and mortgage interest rates that have scraped record lows.

"It's kind of quiet right now," said Fred Arnold, president of lender American Family Funding. "There's no real excitement out there that we are used to seeing in the springtime."

Many homeowners who are not obliged to move are staying put and investing in home improvements instead.

Home Depot said it has seen rising consumer demand for maintenance and repair projects this spring.

Despite sellers often resorting to painful cuts in their asking prices, realtors say many deals continue to fall through due to the unrealistic expectations on both sides.

"Buyers still think properties are too expensive and want bigger discounts," said Mario Greco, a Chicago-based realtor. "Sellers are still not ready to take their lumps yet and recognize what their property is worth in today's market."

RISK-SHY LENDERS

During the boom, lenders went wild, offering loans with no money down and, in many cases, no requirement on borrowers to prove their income.

Now, access to credit and hefty down-payment requirements are an issue even for buyers with good credit, one that realtors and brokers complain is slowing the market.

"It's difficult, and getting more difficult," said Bob Walters, chief economist at Quicken Loans in Detroit. "All the moves whether it be regulatory, underwriting, pricing -- I can't think of an exception -- all of them are pointing toward making it more challenging to get a loan."

The government-rescued housing finance giants Fannie Mae and Freddie Mac tightened up lending standards in 2007 and 2008 as bad loans began to soar and there has been a steady drip of new requirements since then. More changes to credit rules are under discussion and could constrain lending further.

Keith Klein, a mortgage loan consultant at Bank of Blue Valley, a local lender in Overland Park, Kansas, said tougher underwriting standards mean that if prospective buyers cannot put down 20 percent, they cannot get a mortgage.

"We're just not seeing very much right now," he said.

Realtors also complain that credit for first-time buyers has dried up, which has a knock-on effect on the rest of the market as people cannot sell to move up the property ladder.

As the bulk of the market remains hobbled, the contrast with the high end is sharpening.

Mike Sato of Chicago-based Jameson Sotheby's International Realty, cites the recent sale of a $4.5 million home not even built yet as a sign of the change among rich clients.

"I haven't seen a deal like that since 2008," he said.

Diane Saatchi, senior vice-president at Saunders & Associates Realty which specializes in the Hamptons oceanfront strip favored by Wall Street, said she was seeing a lot of buyers paying in cash for homes worth $10 million.

"There's a pent-up demand on the buy side because people have been waiting for a couple years."

High-end borrowers find it easier to get credit but even for them it is not guaranteed.

Matt Farrell, managing partner at Urban Real Estate in Chicago, recounted how a buyer with good credit and seeking a loan for a $2 million home was unable to secure a mortgage in time. So the buyer wired cash to pay for it with no loan.

"After the banking sector was infused with all that government cash to go out and lend more money, you'd think we'd be seeing more activity out there," Farrell said. "But when someone who can pay $2 million in cash can't get a loan, then you know you have a real problem." (Additional reporting by Carey Gillam, Dhanya Skariachan, Kevin Gray, Leah Schnurr, Al Yoon and Daniel Levine)