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The Threat of 'Sidelined' Home Sellers

How many homeowners have been sitting on the sidelines during the housing downturn, waiting for massive price plunges to pass?

The prospect of home-price stabilization is raising that question in some of the nation's housing markets, say real-estate agents, who report an uptick in listings from "sidelined" sellers testing the waters.

Over the past year, there's been plenty of speculation about if and when banks will begin to list more foreclosed homes for sale. But these sidelined sellers represent another potential source of "shadow" inventory.

"The number of people coming back on the market as sellers is moving up," says Pat Lashinsky, chief executive of real-estate brokerage ZipRealty, Inc. At the same time, "buyers are looking, but they're not buying," he says. The inventories of unsold homes increased in June, according to the National Association of Realtors, to 8.9 months of supply at the current sales rate, up from 8.3 in May.

In a survey by real estate website Zillow.com earlier this year, some 7% of homeowners surveyed said they were "very likely" to put their home on the market over the next year if they saw signs of improvement in their housing market. That would translate to more than 5 million homes.

"What's going to happen to the household that wanted to move three years ago and didn't want to sell into a declining market?" says Michael Fratantoni, an economist at the Mortgage Bankers Association. "There's a lot of those folks out there, and once we start getting a couple months of good news, there's going to be a flood of listings from these people."

Real-estate agents in Southern California say that's happening already. "We have had unabated growth in our listing inventory. Usually it ends towards February. This year inventory kept increasing. It was uninterrupted growth," says Steven Thomas, president of Altera Real Estate, a brokerage in Orange County, Calif.

Surprisingly, he says, the share of home-sellers with equity in their homes has grown over the past year, to 63% in May, from 52% one year ago.

That's a problem, agents add, because many of these sidelined sellers continue to cling to unrealistic views about how much their homes are worth. It's bound to become an issue in all neighborhoods as more mid-to-high end homes go into foreclosure or attempt a short sale, setting prices at a lower level.

"At any sign of good news, if [sellers] are going to try to liquidate their house, that's going to prevent supply from going very low. It creates a choppy bottom," says Stan Humphries, chief economist at Zillow.

Karen Wiese decided to hold off on selling the six-bedroom home in suburban Sacramento, Calif., that her husband built five years ago after prices first softened. The home wasn't getting any offers at the \$1.1 million asking price, so she and her husband, a homebuilder, took it off the market and decided to live there for two years. They figured the market would recover quickly.

Last week, she put the home on the market for \$639,000. "We don't even know if we'll get a looker," says Ms. Wiese, 59, who is building a smaller home on an adjacent lot. She wants to downsize because her husband died last year and she sees no reason to live in such a larger home any more.

Ms. Wiese has lots of equity in the home, which means she's able to be flexible on price. Many sellers don't have that luxury and are reluctant to cut their price because then they'll have to consider a short sale, where the home sellers for less than the amount owed. Short sales can be tough to pull off and can have the same effect on a borrower's credit score as a foreclosure.

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