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Million-dollar homes are falling prey to foreclosure

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By Joseph Pisani, Special from CNBC.com



Enlarge Windemere Real Estate

A \$1.3 million foreclosed apartment in Bellingham, Wash., has views of Bellingham Bay from its floor-to-ceiling windows. Three other apartments in the same building are also available.

Heated pools, ocean views and media rooms are not what most people would expect to find in a foreclosed property, but more high-end homes — priced at more than a million dollars — have been falling into the hands of banks this year.

Foreclosures of homes worth more than \$1 million began increasing at the end of 2009, according to data provided to CNBC.com by foreclosure tracking website RealtyTrac.

Foreclosures reached a high in February 2010, the last month data were available, when 4,169 high-end homes were somewhere in the foreclosure process; having received a foreclosure notice, had an auction scheduled or had ownership taken over by the lender. That's a 121% increase from a year ago.

The deterioration comes just as housing experts say that foreclosures in the low and middle ends of the housing market are showing signs of stabilization.

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Owners of expensive homes "were able to stave off foreclosure longer," says independent real estate analyst Jack McCabe, CEO of McCabe Research and Consulting in South Florida. "Lower-end homeowners were the first ones to see the escalating foreclosures, because they generally do not have the cash reserves or credit available that the luxury homeowners do. They had the ability to take their credit cards and pull out thousands of dollars, while the lower-end buyers were already tapped out."

McCabe expects foreclosures in the high-end market will increase into 2011.

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Though the RealtyTrac data on high-end homes are not available on a regional or metropolitan basis, anecdotal

evidence indicates the problem is cropping up across the country. High-end and luxury categories vary widely from market to market. In some suburban areas, in the Northeast and California, for instance, million-dollar homes are fairly common, but nationwide, they represent 1.1% of overall housing stock.

"We have seen an increase, in the million-plus range, of the number of foreclosures and short sales in the greater Chicago area," says Jim Kinney, vice president of luxury home sales at Baird & Warner.

He says that of the 295 million-dollar, single-family properties sold in the first quarter this year, 37 were either a foreclosure or short sale, when a bank and homeowner agree to sell the home for less than the loan is worth. During the same period a year ago, 10 of 231 fell into those categories.

In the Fort Myers, Fla., area, Mike McMurray of McMurray and Nette and the VIP Realty Group says he has seen a few foreclosed high-end homes on the market compared with none last year. He's currently showing a 4,800-square-foot, \$3.65 million home on Captiva Island, where foreclosures are usually rare. The bank-owned home has five bedrooms and access to 150 feet of Gulf Coast beachfront.

"There are more we see coming down the pipeline," McMurray says.

Data show that may be the case around the country. The 90-day delinquency rate on home loans worth more than a million dollars hit a high in February at 13.3%, above the overall rate of 8.6%, according to real estate data firm First American CoreLogic. Foreclosure proceedings generally start after a homeowner has been at least 90 days late on a mortgage payment, experts say.

One difference in the high-end market is that lenders are willing to do more to head off foreclosure by renegotiating the loan or accepting a short-sale transaction, which is essentially a last-ditch effort.

"Lenders are far more likely to go the short-sale route," says Andrew LePage, an analyst at real estate research firm DataQuick. "There's a lot more money at stake, and maintenance can be high if a foreclosure just sits there."

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A \$1.15 million condominium in Chicago in the landmark Palmolive Building was initially offered as a short sale, but after a buyer did not materialize, it's now owned by the bank, says Janice Corley, founder of Sudler Sotheby's International Realty, which is currently listing it. The condo has lake views and a long list of luxury-building amenities, including a steam room, doorman and gym.

The rise in luxury foreclosures has one Las Vegas real estate agent flying prospective buyers into the city via private jet. Luxury Homes of Las Vegas and JetSuite Air teamed to offer the complimentary trip for buyers flying from Los Angeles to view three foreclosed homes priced between \$4.9 million and \$6.1 million.

Agent Ken Lowman says he gave three tours over a one-week period and hopes to expand the offer to buyers from other West Coast cities.

There's just too much competition, Lowman says. "It takes an innovative approach like this to get results."

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