



# RPX MONTHLY HOUSING MARKET REPORT

## *The RPX Monthly Housing Market Report for September 2012 is Now Available*

New York, NY - November 29, 2012 - [Radar Logic Incorporated](#) released today the RPX Monthly Housing Market Report for September 2012. This edition provides a detailed analysis of housing market trends in 25 U.S. metropolitan areas, as well as analyses of specific sub-markets, including the markets for distressed properties (foreclosures and REO) and investment properties.

We have included an excerpt from the report below. [To purchase the complete report, please visit Radar Logic's website.](#)

### *In September, Home Prices and Sales Activity Were Above 2011 Levels*

#### *But the Details Suggest It's Not All Good News*

Trends in home prices and sales activity have improved relative to a year ago, but a close look at the latest housing data suggests that the housing market is not doing as well as some of the top-line statistics may suggest.

#### **At first glance , the news looks good.**

**Home prices are up.** The RPX Composite price, which tracks home prices in 25 metropolitan statistical areas (MSAs), increased 5.2 percent year over year through September 25, 2012. RPX prices for 20 of the 25 constituent metropolitan statistical areas increased, RPX for three MSAs were essentially the same as they were a year ago, and RPX for two MSAs declined year over year.

**Price trends through September were stronger than they have been in seven years.** The 4.4 percent month-over-month decline in the RPX Composite price as of September was smaller than the August-to-September decline in any year since 2006. Moreover, 2012 was the first year since 2006 in which the RPX Composite increased year over year during the month of September.

**Sales activity has increased.** The 25-MSA transaction count was 12.3 percent higher than it was a year earlier.

**Distressed sales are decreasing.** Sales of foreclosed homes and REO, or "motivated sales", continued to decline on both a year-over-year and month-over-month basis. As of September 25, 2012, the 25-MSA motivated transaction count had declined 9.4 percent month over month, 39.2 percent year over year, and 53.6 percent from its peak on March 21, 2011. In contrast, sales of all other homes, or "other sales", increased 27.9 percent on a year-over-year basis. As a result, motivated sales have fallen to 13 percent of total sales, their smallest share of total sales since January 2008.

**Upon closer examination, however, details show that the housing market is not as strong as it first appears.**

**Improvements in the RPX Composite price have been enhanced by the 39 percent decline in motivated sales and do not reflect significant appreciation in household-owned homes.** The decline in motivated sales as a percentage of total sales has helped to buoy the RPX Composite price because foreclosed homes sell at significant discounts to other homes. The 25-MSA composite price for homes sold in motivated sales was 34 percent lower than the composite price for all sales as of September 25th. Thanks to the shift in sales mix away from motivated sales, the overall RPX Composite price increased 5.2 percent year over year *while the composite price for homes sold in non-motivated sales (i.e., traditional home sales by households and builders) improved just 1.3 percent.*

**While the widespread increase in prices and sales activity suggests that housing demand is on the rise, a significant and increasing share of demand in the last year has come from institutional investors rather than households.** Institutional investor purchases accounted for 9 percent of the 25-MSA RPX transaction count, up from 7 percent the year before. Monthly investor purchases increased 42 percent year over year while the overall monthly transaction count increased just six percent. Many of these investors are private equity funds purchasing homes for single family rental (SFR)

portfolios. Such investors may help drive home price appreciation in the short run, but are not likely to do so in the long run. As we have said before, the positive impact of investor activity on distressed prices is likely to be temporary. As prices for REO increase, the expected future appreciation must also increase in order for investors to achieve the same return on investment. If prices rise to a point where investors' expectations of future home price appreciation do not support their desired returns, then demand for REO will decline and prices could fall again.

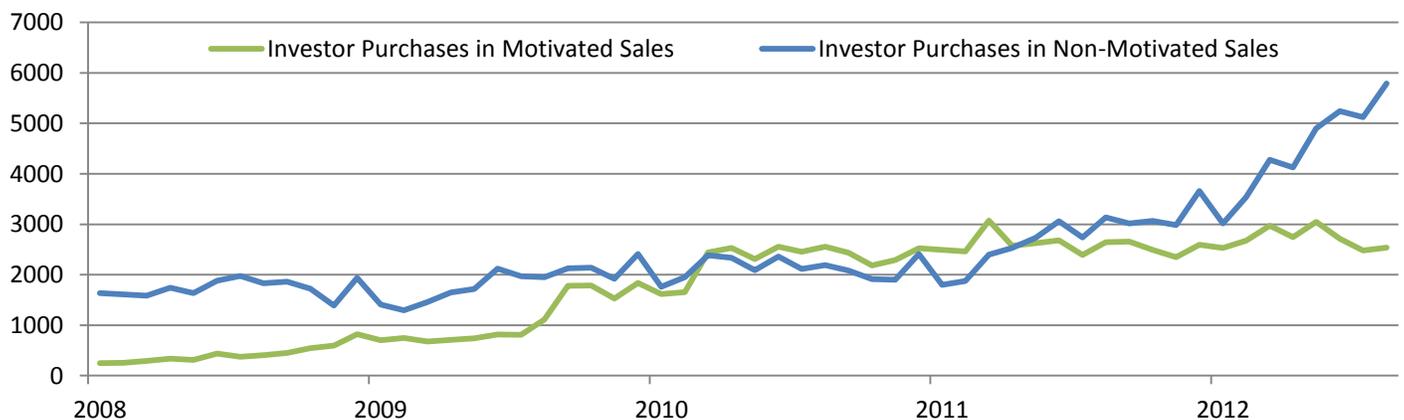
**Even though motivated sales have declined, there is no shortage of REO or properties in the foreclosure pipeline.**

While there are a number of explanations for the decline in motivated sales, a paucity of REO properties and homes in the foreclosure pipeline is not one of them. According to the latest figures from LPS, as of October 2012 there were 1.8 million properties in pre-sale REO inventory and 3.5 million properties more than 30 days delinquent but not in foreclosure, for a total of 5.3 million properties.<sup>1</sup> These figures were down from September 2012 and October 2011, but they are still very high by historical standards. Eventually these distressed properties will make their way onto the market, and as they do they will weigh on home price metrics.

The decline in motivated sales is, in part, a result of increasing prices for REO and foreclosed properties sold at public auction. The 25-MSA motivated composite price increased 10.8 percent year over year in September. Over the same period, purchases by institutional investors in motivated sales declined 4 percent, while institutional investor purchases in non-motivated sales increased 67 percent (see Exhibit 1). Apparently, in the face of increasing prices and a constrained supply of attractive REO properties from motivated sellers, investors are turning to another source for properties: investors who purchased homes in prior motivated sales. In many cases, local investors who purchased distressed homes early in the housing crisis are now selling their properties to large real estate investment companies seeking to build SFR portfolios. As the early investors purchased distressed homes at a low basis, they are able to sell to the new arrivals at significant discounts to the traditional housing market while still earning a healthy return.

Exhibit 1

**Institutional Investor Purchases in 25 MSAs**



**Looking forward**

So the question remains: are the improvements of the last year going to last, or are they just the latest false start to a recovery in the still beleaguered housing market?

Given the large inventories of pre-sale REO and properties with delinquent mortgages, as well as the 10.7 million underwater borrowers in this country according to the October 2012 National Scorecard published by HUD and the Treasury, we continue to have doubts about whether a robust and sustained housing recovery is currently underway.<sup>2</sup> We believe that an alternative scenario is equally likely, one in which housing price metrics rise and fall in a saw-tooth pattern until the shadow supply has been substantially absorbed.

In the short run, demand for homes from investors and households may surpass available supply, pushing prices up, but as prices increase demand will decrease (in particular demand from investors, as described above) and supply will increase. Rising prices will unleash pent-up supply as households that have been wanting to move, but were previously prevented

<sup>1</sup> Lender Processing Services. LPS' "First Look" Mortgage Report: October Month-End Data Shows Decline in Delinquencies and Foreclosures. Jacksonville, November 26, 2012.

<<http://www.lpsvcs.com/LPSCorporateInformation/NewsRoom/Pages/20121126a.aspx>>

<sup>2</sup> United States. Department of Housing and Urban Development and Department of the Treasury. The Obama Administration's Efforts To Stabilize The Housing Market and Help American Homeowners. Washington, October 2012.

<[http://portal.hud.gov/hudportal/documents/huddoc?id=oct\\_natl\\_2012\\_sc.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=oct_natl_2012_sc.pdf)>.

from doing so by negative home equity, put their homes on the market. To the extent that such households elect to rent rather than buy (which could be a popular choice given the housing bust we just lived through) the result will be an increase in supply without a corresponding increase in demand. Or, if formerly underwater households elect to downsize homes (which is also likely given the widespread destruction of household wealth during the bust), the result will be a shift in the mix of home sales toward smaller, less expensive homes. In either case, downward pressure will be brought to bear on aggregate home price metrics.

## *About Radar Logic*

Radar Logic Incorporated, a real estate data and analytics company, calculates and publishes the Radar Logic Daily™ Prices. The prices track housing values for major U.S. metropolitan areas and are the basis of the Residential Property Index™ (RPX™), a market that enables real estate to be traded as a liquid asset, via property derivatives marketed by major financial institutions.

RPX allows real estate and financial professionals to manage opportunity and risk, invest in real estate values without owning physical assets and effectively analyze markets using a consistent metric: price per square foot. Data in the RPX Monthly Housing Market Report reflect the 28-day aggregated value of Radar Logic Daily Prices. The price per square foot metric used significantly reduces the influence of property sizes on overall housing price trends, which can skew results.

The Daily Prices for each MSA are not adjusted for seasonal variations. In some cases, Daily Prices may vary based on reporting characteristics within individual MSAs. The RPX Monthly Housing Market Report provides insight and detailed analysis of Radar Logic's 25 MSAs and the Manhattan Condo market. This study is based on the premise that there is no national housing market; rather, each MSA, while having some economic influences in common, is influenced primarily by local conditions.

The October 2012 RPX™ Monthly Housing Market Report will be released on December 20, 2012, at 4:00 PM EST.

## *RPX Analytics & Research*

Radar Logic offers specialized analytic services which allow real estate and financial professionals to view current and historical price per square foot and transaction count trends for all markets and sub-markets we track. MSAs can be segmented by location (zip code and county), property type (single family, multi-family and condo), property size, date range, and sale price. The database is derived from our neutral, public source records.

Our data provide a means for all entities associated with or affected by housing prices to maintain market data streams on a constant, neutral and daily-updated basis.

For additional insight on this report or for inquiries about research or analytic products, please contact:

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