# RPX MONTHLY HOUSING MARKET REPORT

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Quinn W. Eddins, Director of Research

## *RPX Monthly Housing Market Report for March 2013 is Now Available*

New York, NY - May 31, 2013 - Radar Logic Incorporated today released the RPX Monthly Housing Market Report for March 2013. An excerpt from the report is provided below.

### *Gains in Home Prices Driven by Unsustainable Forces*

### *Despite the Increase in Prices Over the Last Year, Weakness Persists in the Housing Market*

The press is buzzing with news of year-on-year gains in housing prices, but a look under the hood raises doubts about whether the gains are sustainable. On the surface, the state of housing markets looks good: the 25-MSA RPX Composite price increased 13.1 percent year over year as of March 21, with all but one of the constituent metropolitan statistical areas posting gains. However, when one digs a little deeper one finds that the conditions that have given rise to these gains differ from those that underpinned past housing recoveries, and are not adequate to drive a lasting appreciation in housing values.

**Limited Supply**

Tight inventory is perhaps the most significant driver of year-on-year gains in the 25-MSA composite. At the height of the housing boom, in July 2007, 3.4 million single family homes were for sale, according to the National Association of Realtors (NAR). In April 2013, just 1.9 million single-family homes were on the market. According to the NAR, the inventory of existing single-family homes for sale was down 11.9 percent year over year in April. More recent figures are available from Housing Tracker at Department of Numbers, which reports a 15.5 percent year-on-year decline in the inventory of single family and condo homes listed for sale as of May 27. Inventory estimates by the NAR are nationwide, while estimates by Housing Tracker cover 54 major metropolitan areas.

Looking forward, however, inventories are likely to increase. Current constraints on supply – negative and low equity, seller psychology, and low builder activity – will have less of an effect as home prices rise. As inventories rise, price trends will likely weaken.

**Negative and low equity**

The primary constraint on supply may be negative equity on the part of homeowners. According to the NAR, 10.2 million out of a total of about 50 million U.S. homeowners are still "underwater", meaning they owe more on their mortgage than their home is worth and are therefore unable or unwilling to sell their homes.

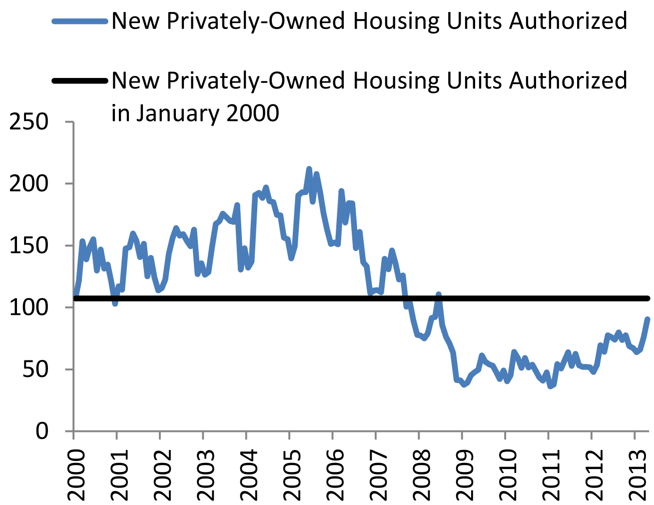
As home prices rise, many hundreds of thousands of formerly underwater homeowners will once again be able to sell as their properties are once again valued above the balance outstanding on their mortgages. To the extent that these sellers purchase new homes in different markets and different price points, or decide to rent rather than buy, the homes they sell will add to the net supply available in their current market and price range.

**Seller psychology**

Another serious constraint on supply is reluctance to sell near the bottom of the market, particularly when prices appear to be rising. Such reluctance likely affects many homeowners who, while possessing positive equity in their homes, still feel their mobility constrained by the decline in the value of their homes relative to the purchase price.

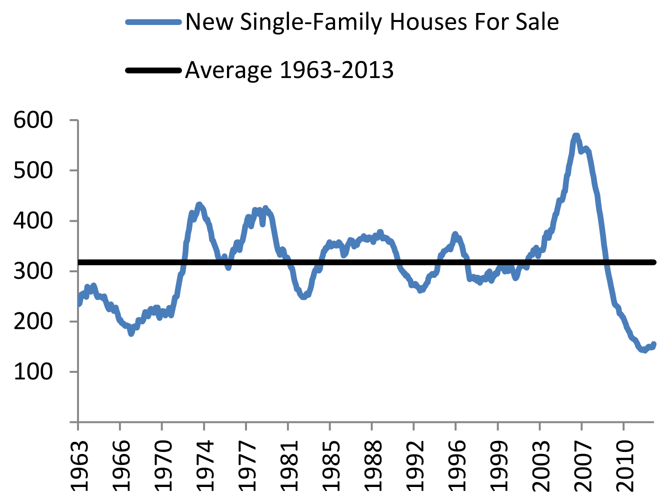
This constraint on supply may be the most difficult to quantify and could be the biggest contributor to future volatility. As prices rise, this "shadow inventory" will appear on the market. Such new supply could dampen any sustained growth in prices.

Exhibit 1: New Privately Owned Housing Units Authorized, Unadjusted Data for the United States




Source: Census Bureau

Exhibit 2: New Single-Family Houses for Sale, Unadjusted Data for the United States




Source: Census Bureau

## Builder (in)activity

A third factor limiting supply is the slow rate of building activity since 2008. Exhibit 1 shows the number of building permits issued per month in the United States since January 2000, as reported by the [U.S. Census Bureau](). Permits dropped dramatically from 2006 through 2008, and since then have remained well below the monthly rate in January 2010. The low rate of building activity has resulted in record low new-home inventories. As shown in Exhibit 2, the number of new homes for sale for every month in 2012 was less than half the long-term average.

While four years of limited building activity helped to constrain supply in 2012, and thereby contributed to the rapid rise in home prices, there are signs that builders have started to respond to price signals. Exhibit 1 shows building activity is currently on the rise. As of April 2013, permits had increased 41 percent from April 2012 and 150 percent from the post-bust low in January 2011. These gains were off a very low base, and permits still have a long way to go to get back to the rates of a decade ago, but building activity appears to have turned a corner.

Building activity is likely to continue as builder expectations of future home sales have improved. The NAHB/Wells Fargo Housing Market Index gauges builder confidence by tracking homebuilder sentiment regarding three variables: current single-family home sales, sales in the next six months, and traffic of prospective buyers. The index ranges from 1 to 100, with 50 being neutral. While the most recently published combined index, for April 2013, was still below neutral at 44, the component index that gauges expectations of future sales was 53, which puts it in positive territory and up one point from March. The component indexes for current sales and buyer traffic were 48 and 33, respectively. This suggests that while homebuilders on the whole are not happy with their current sales and traffic, they believe conditions will improve in the future. One might therefore expect building activity to continue to increase, which will help to increase the supply of homes for sale in coming months.

## 'Unorthodox' Demand

While the supply of homes for sale has been severely limited over the past year, demand for homes has increased. Unfortunately, this increase in demand has been driven by unorthodox market forces – artificially low mortgage rates and institutional investor activity - which are liable to disappear in the near future. When they do, slackening demand will slow and perhaps reverse current trends in home prices.

## Artificially Low Mortgage Rates

Housing demand is currently being fueled, in part, by low mortgage rates. Unfortunately, the current rates are largely the result of intervention by the Federal Government in the service of loose monetary policy. While the Federal Reserve has indicated that it will continue its current approach for an extended period, it will eventually change course. At such time mortgage rates will likely rise and cease to be a driver housing demand.

## Institutional Investor Activity

During the twelve months ending March 2013, purchases of residential real estate by corporations, partnerships and investment trusts in the 25 metropolitan areas included in the RPX Composite increased 41 percent. To put this figure in context, purchases by all other buyers increased only two percent during the same time period. Across the 25 metropolitan areas, institutional investor purchases accounted for 12.2 percent of all property transactions in March 2013, up from 8.8 percent in March 2012.

Institutional investors are outcompeting normal buyers for homes. They have access to less expensive capital than households and frequently pay for homes entirely in cash rather than using a mortgage, which helps expedite purchases. Moreover, institutional investors typically purchase homes through channels that are not available to other buyers, such as via foreclosure auctions and bulk sales. As such, they acquire homes before realtors and normal buyers get a chance to see them. The rapid increase in institutional investor purchases has contributed to the shortage of homes available for sale to normal buyers.

Rising prices will reduce the purchasing activity of investors. When prices rise to the point where the economics of the buy-to-rent strategy no longer makes sense, investors will slow their buying and start to sell. The result could be a significant decline in demand accompanied by an increase in supply, which could cause prices to reverse their current upward trend. It should be noted that institutional investor purchases over the last year have been concentrated in seven metropolitan areas: Atlanta, Los Angeles, Las Vegas, Miami, New York, Phoenix and Tampa. One would expect changes in investor behavior to have a particularly severe effect in these markets.

In fact, there is recent evidence that the winds have already started to shift in the single-family rental business. It is becoming difficult for institutional investors to purchase homes cheaply. The composite price per square foot paid by institutional investors in 25 of the largest metropolitan area housing markets increased 14.4 percent year over year in March. Over the same period, asking prices for rents have increased just 2.4 percent, according to Trulia, Inc. As a result, yields on single-family rentals are declining.

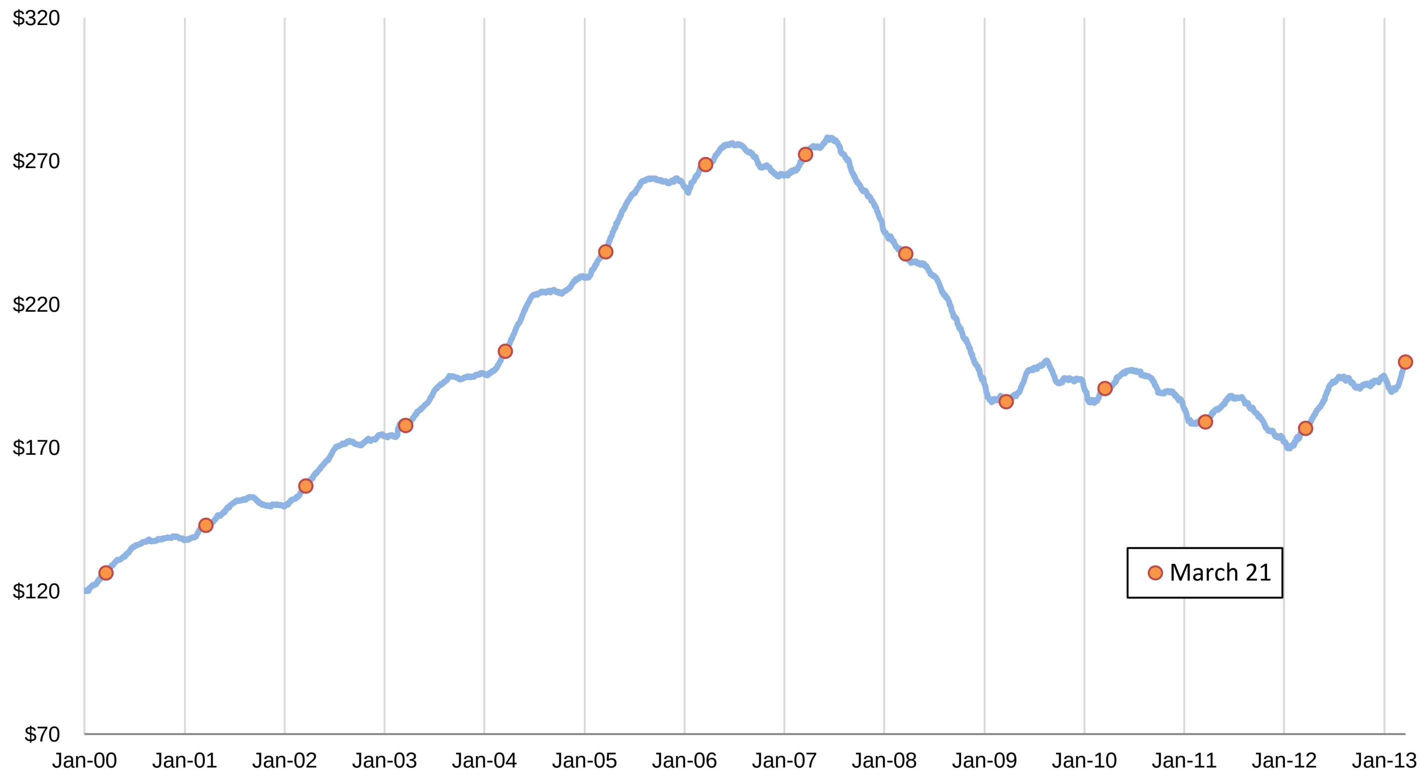
According to Bloomberg Businessweek, companies formed to buy properties that have not gone public have not yet been profitable, and public companies that released financial results for single-family rental investments have reported losses as they have acquired homes faster than they can renovate and find tenants. According to filings with the U.S. Securities and Exchange Commission, Colony American Homes Inc, a division of Colony Capital LLC, has found tenants for only 51 percent of the 9,931 homes it has purchased. American Residential Properties Inc. and Silver Bay Real Estate Trust Inc., REITs specializing in single-family rentals, both reported losses in the first quarter of 2013.

Moreover, Carrington Holding Co. LLC, one of the first large institutional investors to enter the single-family home rental business after the housing crash, has ceased acquiring and in some cases has started to sell properties in its rental portfolio. Bruce Rose, Carrington's founder and CEO, was quoted in Bloomberg Businessweek as saying "We just don't see the returns there that are adequate to incentivize us to continue to invest."

If these trends continue, we could see the rapid investment of the past year give way to an equally rapid divestment in their not-too-distant future.

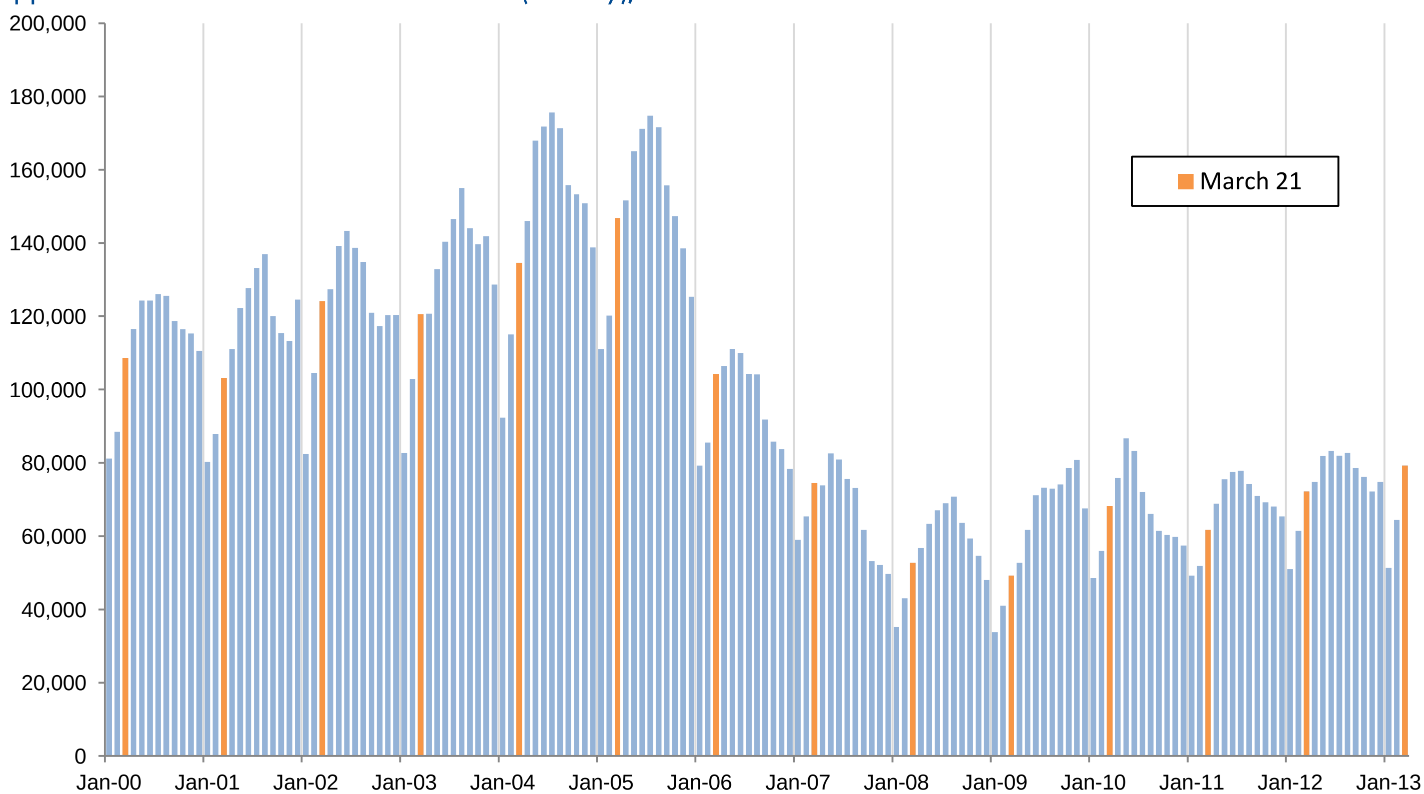
The conditions in many housing markets today are not conducive to a sustainable recovery in home prices. As constrained supply and artificially high demand drive prices higher, supply will enter the market and demand will slacken. We believe that a saw-tooth trend in home prices, in which home prices rise and fall periodically, is more likely than a continuation of the current upward price trend.

## Appendix 1: 25-MSA RPX Composite Price (28-Day), 2000-2013




Source: Radar Logic, 28-Day RPX™ Composite price as of 3/21/2013

## Appendix 3: 25-MSA RPX Transaction Count (28-Day), 2000-2013




Source: Radar Logic, 28-Day RPX™ Composite transaction count as of 3/21/2013

## 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.

## 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:

**Radar Logic Incorporated**
180 Varick Street, Suite 502
New York, NY 10014
212.965.0300
info@radarlogic.com