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Foreclosures, REO Pressuring Home Prices in Many Key Markets: Report

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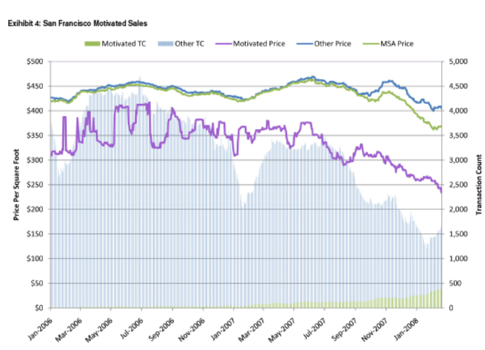
As REO listings flood key local housing markets throughout the nation, it's clear that the glut of bank-owned real estate is not only building up overall inventory, but also pushing down prices as well.

A new report Friday from real estate analytics firm RadarLogic confirms that trend: in 25 tradeable MSAs, only three markets showed price increases during Febraury, and 22 showed declines on a year-over-year basis; however, ten MSAs posted price increases from January to February, and nine of those still show a positive 30-day trend.

RadarLogic publishes a set of housing prices, on a per-square-foot basis, that serve to drive the Residential Property Index, or RPX; the RPX is one of the tradeable property derivatives out there (the other being the Case-Shiller based housing futures).

Most tend to think of the effect of foreclosures and REO in an aggregate sense; they're not good for neighborhood stability, are prone to investment activity and flipping, and tend to drag prices down as a result. And, of course, as any amount of housing inventory rises and sits on the market longer — REO or otherwise — downward pricing pressure tends to result.

All of which, of course, is true. But RadarLogic's monthly housing report delves into some interesting analysis that finds an REO effect of an entirely different sort: bank-owned homes now tend to be discounted so heavily relative to the rest of the housing inventory, that in markets where REO has become prevalent enough, a pretty large divergence now exists between bank-owned sales prices and everything else.



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Consider San Francisco, Calif., where prices are off 14.1 percent relative to one year ago: REOs represented nearly 23 percent of the housing for sale, according to Radar Logic. The graph to the right shows transaction counts and pricing data for so-called motivated and non-motivated sellers in SF; Radar Logic defined “motivated sales” as institutional sales, foreclosure auctions, and the like.

What should stand out immediately is how much lower the “motivated price” is on a per square-foot basis. In fact, while the MSA as a whole had a price per square foot decline of 14.1 percent during February, Radar Logic reported, non-motivated sales were down only 3.4 percent. The increase in the number of motivated sales, in combination with a 37.1 percent year-over-year price decline, has put downward pressure on the overall MSA price.

RadarLogic found that when creating quartiles based on the median price from 2006 by zip code in San Franscisco, motivated sales account for 40 percent of all sales in the lowest quartile, 19 percent in the second quartile, 8 percent in the third quartile and only 3 percent in the most expensive quartile.

Keep in mind, Radar Logic here is tracking actual transactions — actual sales. What it suggests is that lenders are quickly moving to gain liquidity for investors and themselves by unloading properties at a lower price point, as they try to stay ahead of the curve of defaults (while it’s true that foreclosed properties tend to be lower priced to begin with, keep in mind that Radar Logic’s data is normalized around price-per-square foot; also note that the price per square foot for motivated sales has fallen dramatically as inventory has risen).

It’s a scenario being played out right now in other key markets throughout the United States, Radar Logic said.

For more information, visit http://www.radarlogic.com.