



**University of St. Thomas**  
Minneapolis St. Paul  
Residential Real Estate Index

August 2012



UNIVERSITY  
of ST. THOMAS  
MINNESOTA

Real Estate

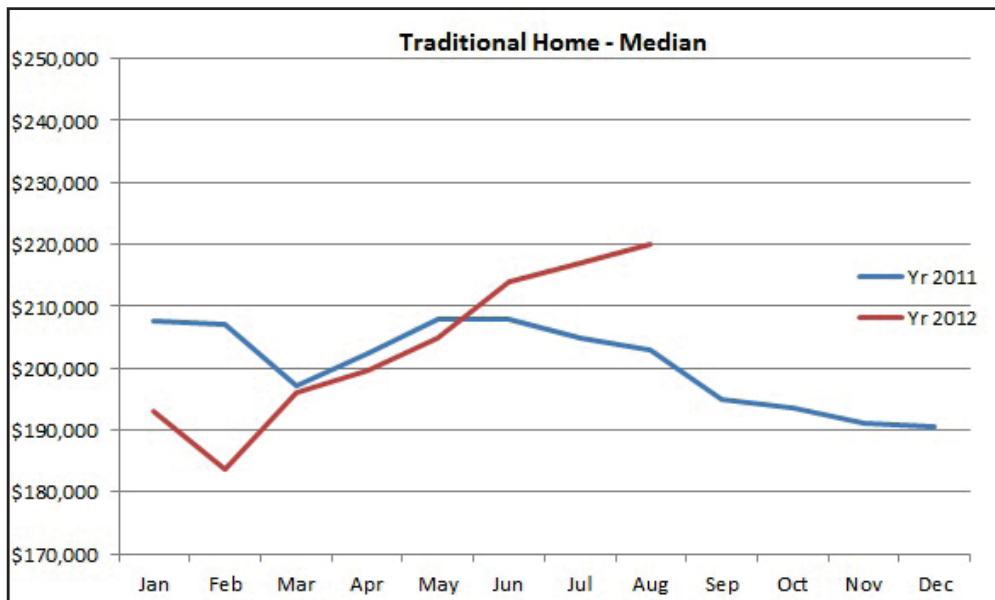
**UST** OPUS COLLEGE OF  
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## Welcome to the latest edition of the UST Minneapolis St. Paul Residential Real Estate Index.

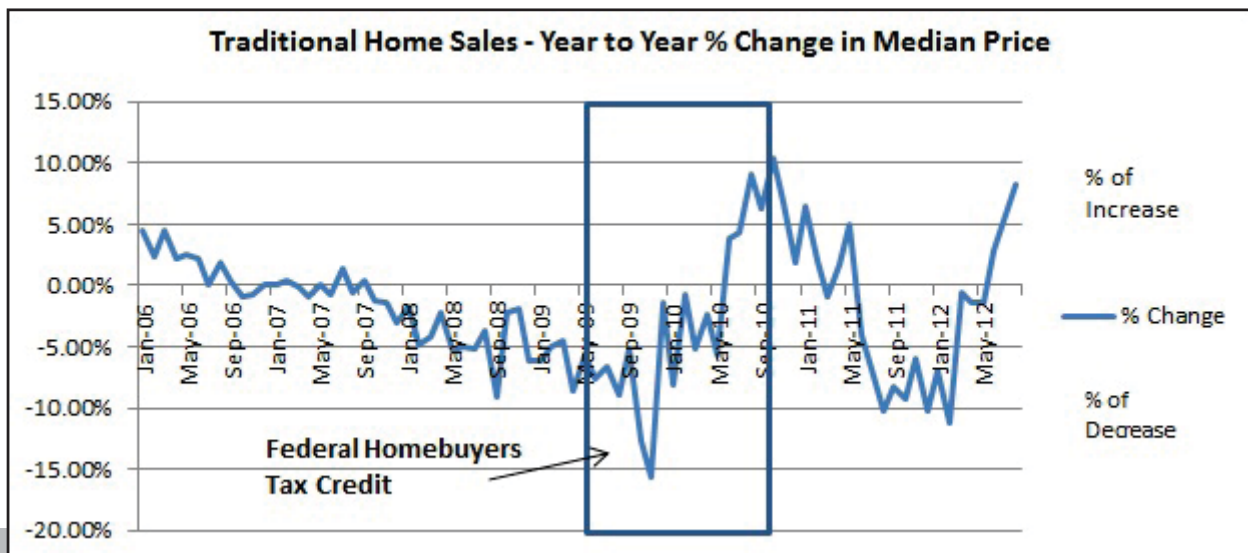
The University of St Thomas Residential Real Estate Index has been developed by the Shenehon Center for Real Estate at the University of St. Thomas Opus College of Business to correct the overstatement of housing price decline reported by the S&P Case-Shiller Price Index for the Minneapolis–St. Paul metropolitan area. Rather than a single index or price representative of all homes, the UST Residential Real Estate Index includes the price of homes in three sub-markets: traditional sales, short sales and foreclosure sales as well as a nine variable composite index for measuring market health for each category based on a three-month moving average.

### August 2013: Is This Recovery For Real?

The good news continues for the Minneapolis / St. Paul housing market. The median price of a traditional (non-distressed) home increased from \$217,000 to \$219,900. The median price is up 8.3% when compared to August 2011. This is a continuation of the trend in which the median price of a traditional home has been higher than it was in the previous year. The UST Traditional Composite Index in August was 1020, the highest level recorded since October of 2006, when it was 1021. The month by month median sale price of a traditional home in 2011 looks very different when compared to the month by month data for 2012.



By this time last year, the median sale price for a traditional home sale had already peaked and had been declining for three months. At this time, it appears that the traditional median sale price for the remaining months of 2012 will remain above 2011 levels, even allowing for a decline in median sales prices that normally occurs in the late fall and early winter months. If median prices are able to remain above last year's levels through the fall and winter and into the spring of next year, that will be a good indication that the housing market in Minneapolis / St. Paul has bottomed out and is on the path to a sustained recovery.



The chart above illustrates the year-to-year change in the median sale price of a traditional home. Since early this year, the rate of change has been increasing rapidly, turning positive in June 2012. This is the most significant increase observed in the last six years, with the exception of the period between April 2009 and September 2010 when the market was artificially stimulated by the Federal Homebuyers Tax Credit. The rapid increase in the year-over-year prices observed over the last six months since February 2012 is an additional indicator of the strength of this recovery period.

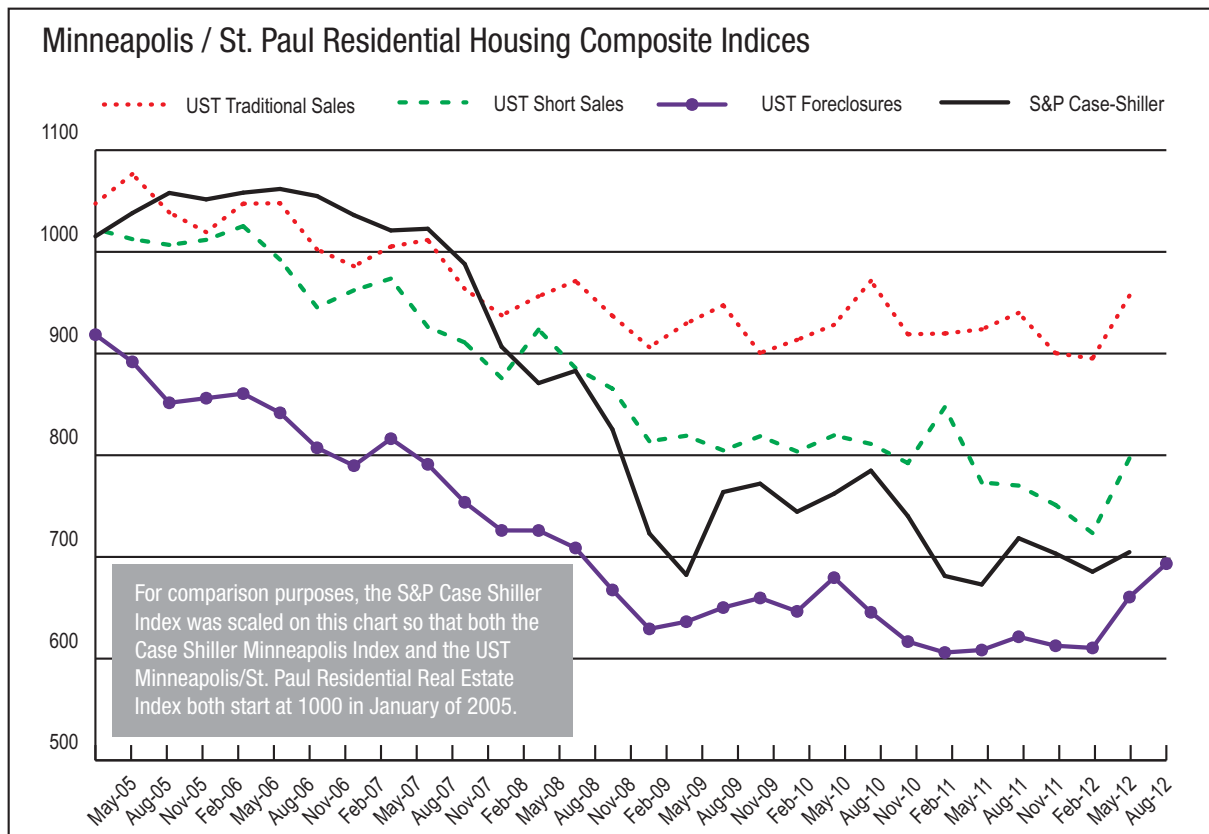
The percentage of distressed properties that closed in August continues to remain relatively low. In August, 36% of the sales that closed were distressed properties, compared to 45% in August 2011. The UST Residential Real Estate short sale market health index is showing a slight decrease of 1.5% compared to one year ago.

The foreclosure market's health as represented by the UST Residential Real Estate Foreclosure Composite Index recorded another gain in August, moving from 692 in July to 702, an increase of 1.4%. This marks the fourth consecutive monthly increase of the Foreclosure Composite Index. (See accompanying chart: Minneapolis / St Paul Residential Housing Composite Indices.)

UST Residential Real Estate Indexes	August 2011	July 2012	August 2012	Year to Year Change
Traditional Sale Index	941	1004	1021	8.50%
Short Sale Index	772	794	783	1.42%
Foreclosure Sale Index	623	692	702	12.68%

### What does it all mean?

As we near the end of the third quarter of 2012, the final story of the 2012 housing market in the Twin Cities is starting to take shape. Barring an unforeseen shock to the market, it appears that the median price of a traditional home sale in the Minneapolis / St. Paul market will remain above last year's levels. As prices continue to rise, the inventory of homes for sale should begin to increase as more homeowners decide to put their homes on the market. The increased number of homes available for sale, combined with historically very low interest rates, should lead to a continued recovery in the first half of 2013.



August UST Composite Index Data					
1. Median Sale Price	August 2011	July 2012	August 2012	Monthly % Change	Annual % Change
Traditional	\$203,000	\$217,000	\$219,900	1.34%	8.33%
Short Sale	\$134,000	\$127,500	\$125,505	-1.56%	-6.34%
Foreclosed	\$105,000	\$121,000	\$123,000	1.65%	17.14%
<b>2. Closed Sales</b>	4,349	4,738	5,032	6.21%	15.70%
Traditional	2,388	3,131	3,224	2.97%	35.01%
Short Sale	502	442	536	21.27%	6.77%
Foreclosed	1,450	1,167	1,275	9.25%	-12.07%
<b>3. Distressed Sales</b>	44.88%	33.96%	35.99%	5.98%	-19.82%
<b>4. Days on Market</b>	141	105	107	1.90%	-24.11%
<b>5. Month's Supply</b>	7.1	4.4	4.2	-4.55%	-40.85%
<b>6. New Listings</b>	6,083	5,856	5,971	1.96%	-1.84%
<b>7. Pending Sales</b>	4,081	4,625	4,831	4.45%	18.38%
<b>8. Homes for Sale</b>	23,520	17,446	16,573	-5.00%	-29.54%
<b>9. % Listing Price</b>	91.20%	95.00%	95.10%	0.11%	4.28%

## Real Estate at the Opus College of Business

### Shenehon Center for Real Estate [www.StThomas.edu/Shenehon](http://www.StThomas.edu/Shenehon)

The Shenehon Center for Real Estate serves as a resource to the commercial, industrial, residential and corporate segments of the real estate industry and the community to advance the public interest in real estate issues. For more than 15 years, the center has supported improvement in real estate leadership and management by creating and developing real estate leadership and management programs for undergraduate and graduate degree programs and professional development, providing a neutral forum to convene real estate professionals to share best practices, supporting and working with local real estate industry organizations, conducting real estate research, and developing mechanisms to transfer leading edge business practices to the real estate industry.

### Master of Science Degree in Real Estate [www.StThomas.edu/RealEstate](http://www.StThomas.edu/RealEstate)

The Master of Science Degree in Real Estate is one of seven graduate business degree programs offered through the Opus College of Business. This part-time, evening program provides students with a comprehensive understanding of real estate financial and quantitative decision making processes, and advanced issues in valuation and land economics, knowledge of critical legal issues, and techniques for market and feasibility studies and real estate investment analysis. Students in the UST MSRE program come from a variety of different backgrounds including appraisal, brokerage, property management, finance, development, engineering, design, facilities management and corporate real estate. The program produces alumni with strong leadership abilities, aptitude for sound decision making, focus on ethics and social responsibility, and a solid network of real estate professionals.

### Bachelor of Science Degree in Real Estate [www.StThomas.edu/business/BSRealEstate](http://www.StThomas.edu/business/BSRealEstate)

The Bachelor of Science Degree in Real Estate is one of 13 undergraduate concentration areas in the Opus College of Business. This four-year degree program provides students with a background in general business and real estate theory and practice. Students study the many factors involved in property assessment and sales, how they change and how these changes affect real estate and individuals. Recent graduates hold positions in the government, nonprofit, construction and private business sectors, including leadership positions in real estate brokerage, investment management, property management, appraisal, construction management, land-use planning and land development.

# About the Index

The University of St Thomas Residential Real Estate Index has been developed by the Shenehon Center for Real Estate at the University of St. Thomas Opus College of Business to correct the overstatement of housing price decline reported by the S&P Case-Shiller Price Index for the Minneapolis–St. Paul metropolitan area. Rather than a single index or price representative of all homes, the UST Residential Real Estate Index includes the price of homes in three sub-markets: traditional sales, short sales and foreclosure sales as well as a nine variable composite index for measuring market health for each category based on a three-month moving average.

One of the problems with the S&P Case-Shiller Price Index is that the matched pairs selected to develop the index do not make a distinction between a traditional, normal market sale and a distressed (short or foreclosure) sale. A property purchased at the peak of the market in 2006 and then foreclosed in 2010 and subsequently sold by the lender is considered by the Case-Shiller Index as a “normal, arms-length”, transaction. The UST Residential Real Estate Index does not consider the transaction to have occurred at “arms-length” because the seller (the bank as the lender) is not a typically motivated seller. In many cases foreclosed properties are sold at distressed, discount prices because the lender wishes to recover as much of their investment as possible and get the property off their books. Further foreclosed homes have often fallen into disrepair and require a significant amount of work to become habitable.

Traditional sales of homes include those properties not subject to the threat of foreclosure or to a sales price which is less than the balance of the outstanding mortgage. Short sales are sales of homes sold for a price less than the outstanding mortgage balance and relieve the seller of the burden of continued payment for a home worth less than the outstanding debt. A short sale also eliminates the threat of future foreclosure. Foreclosure sales are sales of those properties whose owners have defaulted on their mortgage payment obligations and have lost their home to their lender. Title is held by the lender and the home is vacant.

Combining foreclosure and short sales of real estate with traditional property sales skews any single composite price index, such as the S&P Case-Shiller Index, and creates a downward bias when foreclosure sales and short sales represent a significant part of total housing sales. In a normal housing market less than 5% of properties sold would be classified as distressed. During last few years foreclosure and short sales have comprised between 35-60% of all housing sales. This unusually high disproportionality of distressed sales causes the reported decline in a single, overall housing price index to be overstated.

Analysis of these three submarkets for MSP Metro Area since 2005 has revealed that the S&P Case-Shiller Price Index has significantly overstated the price decline for the traditional housing market while understating the loss of value for homes subject to a foreclosure sale. Since the first quarter of 2005 Case-Shiller has reported an overall decline in market price of 26.7%. Our analysis of traditional housing sales for the same period, with a three-month moving average, reveals a price decline of 4.3%. Short sales and foreclosure sales had price decreases of 19.3% and 22.4% respectively. The Case-Shiller Index also uses a three-month moving average.

## About the Authors

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Herb is the director of the Shenehon Center for Real Estate and Master of Science degree in Real Estate at the University of St. Thomas Opus College of Business. His research specialties include housing studies, affordable housing and commercial market analysis. Herb received a Bachelor of Science degree in business from Colorado State University and an M.B.A. from the University of St. Thomas.

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Tom is an associate professor of Real Estate with the Department of Finance at the University of St. Thomas Opus College of Business. His research specialties include public utility valuation and real estate feasibility studies and investment analysis. He received a Bachelor of Science degree in natural resources from the University of Wisconsin and a Master of Science degree in Finance from the University of Wyoming. He received an M.B.A. and Ph.D in Urban Land Economics from the University of Wisconsin.

# Why Another Real Estate Index?

*How does the UST Residential Real Estate Index differ from the S&P Case-Shiller Price Index for the Twin Cities market?*

The Case-Shiller Index is an aggregate price index only and is based on sales data from matched pairs of residential properties. Matched pair analysis compares the recent sale of a property with a previous sale at some point in the past. The difference in sale prices of the property over the time interval between sales is used to calculate the price change and the Case-Shiller Index for a particular month. As many matched pairs property sales as possible for the Twin Cities market are identified and used to calculate each month's index value.

The University of St Thomas Residential Real Estate Index for Minneapolis St. Paul metropolitan area has been developed by the Shenehon Center for Real Estate to provide a broad measure of the health and strength of the local residential housing market covering the 13 county Twin Cities metro area. The health of a housing market is more than just the current reported price for housing. Therefore the UST index incorporates other variables that together provide a better picture of the residential real estate market's health; it takes into account supply and demand factors that are indicators of market velocity and vitality, as well as their effect on housing prices.

The index is comprised of nine different elements that together reflect the residential real estate market health and include the following:

1. Selling prices for traditional, short and foreclosure sales;
2. Number of closed sales;
3. Proportion of traditional, short and foreclosed sales;
4. Time on the market;
5. Months' supply of homes for sale;
6. Number of pending sales;
7. Number of new listings;
8. Number of homes for sale; and
9. Sale price as a percentage of the asking price.

These factors are synthesized and used to calculate a numerical index reflecting overall health of the Twin Cities real estate housing market each month. Another element of the index is using a three month moving average for each of the variables. The use of a smoothing average eliminates many irregularities and distortions that can occur on a month to month basis. The UST Residential Real Estate Index reports a composite value for the total market—after accounting for distressed sales—as well as individual indices for traditional, short and foreclosed sales.

The baseline for the index is the three-month period January through March of 2005, which was assigned a value of 1000. The January through March 2005 period was selected because that was near the apex of the residential real estate housing market. Each month's index can be compared to the previous month, year or market peak to understand the relative strength, direction and momentum of the Twin Cities housing market.

The raw data we use in our research originates from the Northstar MLS in co-operation with the Minneapolis Area Association of Realtors.