University of St. Thomas

Minneapolis St. Paul
Residential Real Estate Index

August 2014

UNIVERSITY
of ST.THOMAS
MINNESOTA

Real Estate

UST OPUS COLLEGE OF BUSINESS

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 2014

Median sale prices for the Twin Cities housing market have recovered from the slight decline that was observed in July. The median sale price for a traditional non-distressed home increased to $228,000 nearly equaling the high water mark for the year set in June at $229,900. It is interesting to note that the median sale price of a traditional home has been a mirror image of the prices seen in June - August of 2013. (See chart below). Compared to last year overall median sale prices were up 5.3%. Compared to July the number of closed sales was steady at 5291. When compared to August of 2013 the number of closed sales was down 7.3%, however the number of traditional sales was up 4.6% while the number of short sales and foreclosed sales were down 58% and 50% respectively. The good news is that most of decrease is due to a sharp decline in the number of distressed sales. During the early part of this year the percentage of distressed sales was hovering near 30%. In August the percent of distressed sales was 10.6%, a level not seen since mid-2007. More importantly, the number of new foreclosures continues to drop meaning that there should be even fewer distressed sales in the next 12 – 18 months.

Traditional Home - Median Sale Price
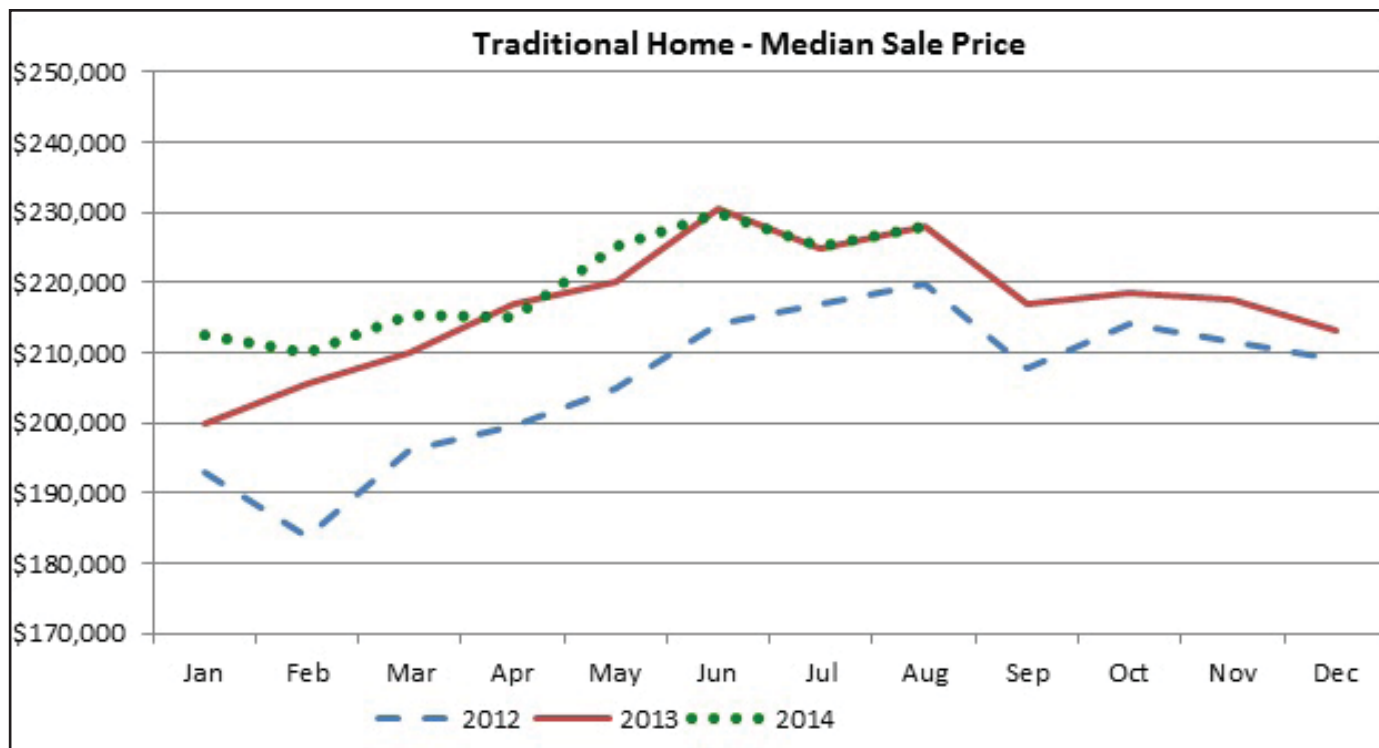
There are several key factors that are indicating a continued return to more normal market conditions. One positive sign is a significant increase in the inventory of homes available for sale in August compared to a year ago. The number of homes for sale in August was 18,205 compared the 16,746 homes that were available for sale in August 2013. In August there was a 4.4 month supply of homes available for sale. As you can see in the chart below the inventory of homes for sale in terms of months supply has been improving in 2014 and is now near pre-crash levels. The increase in the number of homes for sale will result in a better balance between buyers and sellers. Buyers will have more choices as the market moves from a seller's market to a normal equilibrium.

Months Supply of Homes for Sale - Historical Trend

Sale Price - What's Selling vs. What's Available For Sale?

When we examine the prices that homes are selling for compared to what is available for sale there are some interesting differences. For example if you look at the chart below in August 15% of the homes that sold were priced under $140,000 and only 12% of the homes that are available for sale were priced under $140,000. That would indicate more potential demand at that price level than the market had to offer for sale and that there is a strong market for these homes. In contrast, homes that are priced over $300,000 were 28.7% of the sales in August yet 40.2% of the homes on the market were listed at over $300,000 indicating that as a percentage there is a much higher percentage of homes on the market than there are sales. The chart shows that there is a stronger demand compared to the supply of homes selling for under $300,000. The picture is different for the higher priced homes over $300,000. There is a much higher percentage of homes for sale than there were homes sold during the same period pointing to a possible oversupply and a softer market.
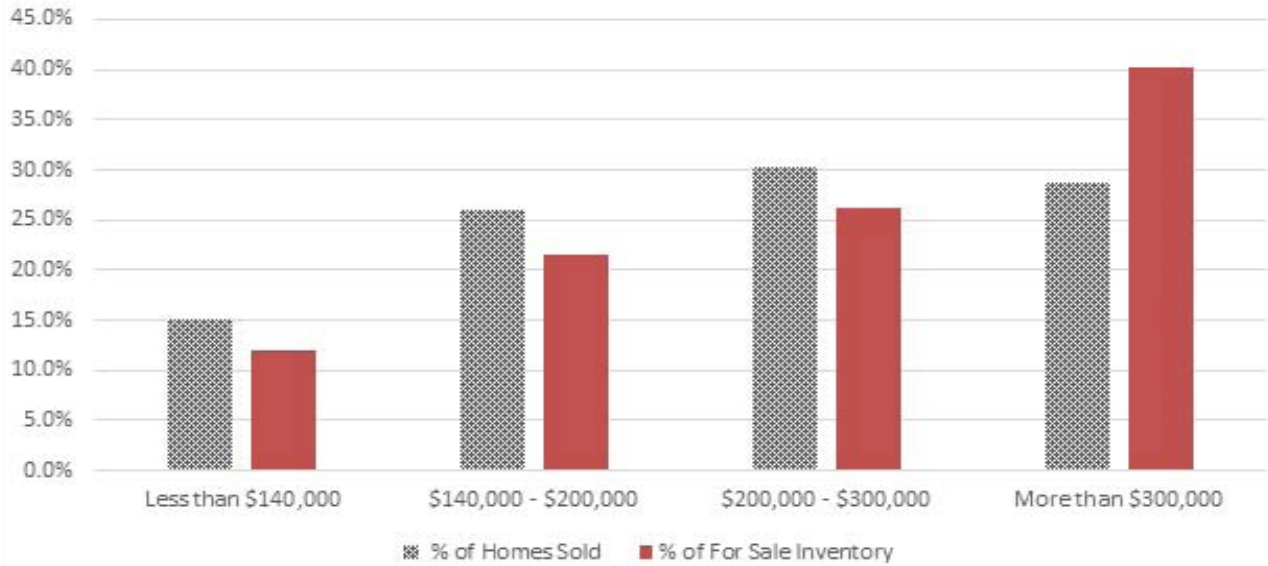
The UST Indexes

The UST Traditional Sale Composite Index in August remains essentially unchanged from July moving up 1 point from 1085 to 1086 setting a new yearly high. At 1086 the index is approaching its highest recorded level when it reached 1090 last August. This is a continued reflection of the strong market for traditional sales that we have experienced in 2014.
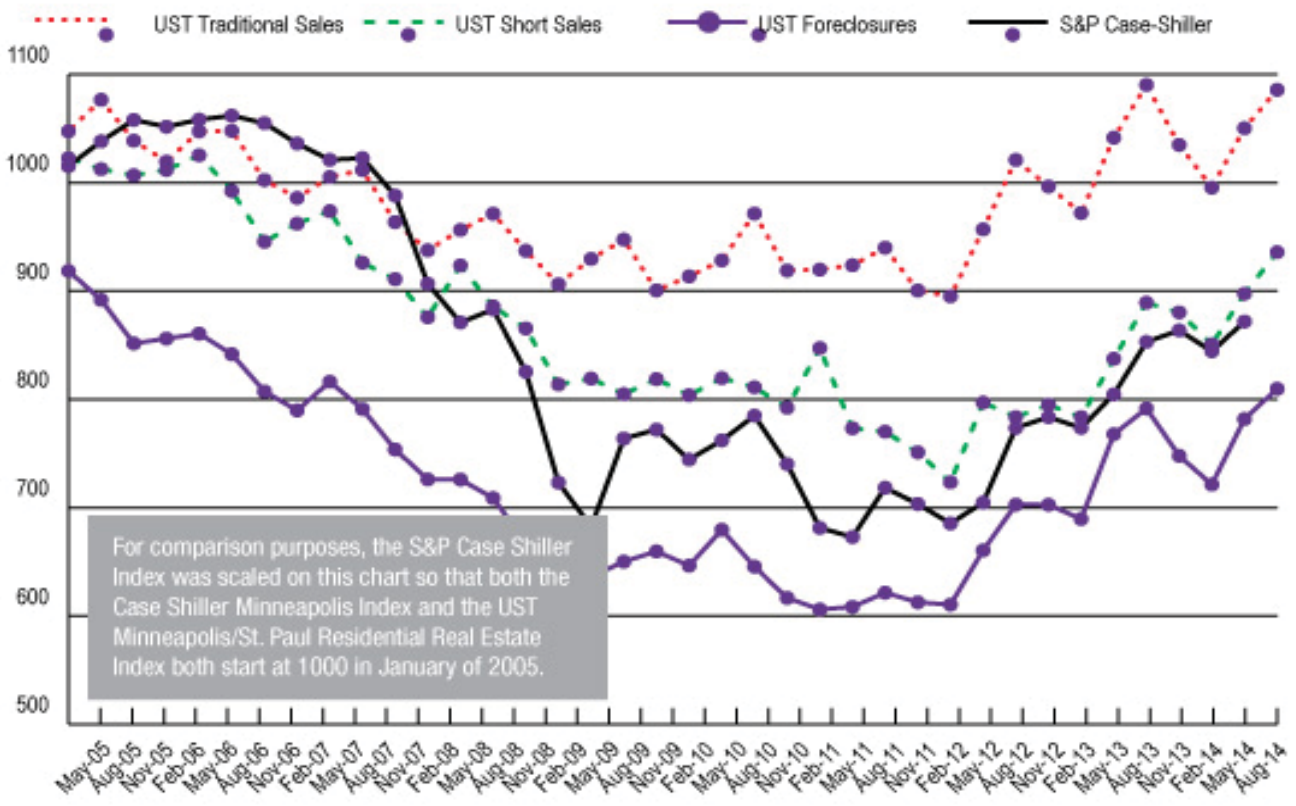
The UST Residential Real Estate Short Sale Composite Market Health Index was 936 in July, up 14 points from the 922 recorded in July, a 1.5% increase. The index has increased 5.3% compared to one year ago. Look for the Short Sale Composite to play a less significant role in our analysis as the number of short sales drops below 3% of the total monthly sales.

The foreclosure market's health as represented by the UST Residential Real Estate Foreclosure Composite Index increased in August, moving from 804 in July to 810 in August, an increase of less than 1%. The index remains 2.3% higher when compared to July 2013.

Aug 2014 - Price of Homes Sold vs. Price of Homes For Sale

Legend: ※ % of Homes Sold ■ % of For Sale Inventory

Categories: Less than $140,000 | $140,000 - $200,000 | $200,000 - $300,000 | More than $300,000

Minneapolis / St. Paul Residential Housing Composite Indices

Legend: UST Traditional Sales · · · · UST Short Sales – – – UST Foreclosures ●—● S&P Case-Shiller

For comparison purposes, the S&P Case Shiller Index was scaled on this chart so that both the Case Shiller Minneapolis Index and the UST Minneapolis/St. Paul Residential Real Estate Index both start at 1000 in January of 2005.

August 2014 UST Index Data					
1. Median Sale Price	**August 2013**	**July 2014**	**August 2014**	**Monthly % Change**	**Annual % Change**
Traditional	$228,000	$225,000	$228,000	1.33%	0.00%
Short Sale	$142,716	$155,000	$161,225	4.02%	12.97%
Foreclosed	$140,002	$142,375	$150,000	5.36%	7.14%
2. Closed Sales	5,705	5,286	5,291	0.09%	-7.26%
Traditional	4,530	4,628	4,738	2.38%	4.59%
Short Sale	314	163	132	-19.02%	-57.96%
Foreclosed	865	495	429	-13.33%	-50.40%
3. % Distressed Sales	20.67%	12.45%	10.60%	-14.82%	-48.69%
4. Days on Market	70	68	68	0.00%	-2.86%
5. Month's Supply	3.8	4.5	4.4	-2.22%	15.79%
6. New Listings	6,949	8,016	6,958	-13.20%	0.13%
7. Pending Sales	5,165	5,087	4,802	-5.60%	-7.03%
8. Homes for Sale	16,746	18,643	18,205	-2.35%	8.71%
9. % of Original Price	97.00%	96.80%	96.30%	-0.52%	-0.72%

Real Estate at the Opus College of Business

Shenehon Center for Real Estate 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
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
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.

Minneapolis St. Paul Residential Real Estate Index

About the Index

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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 12.8%. Our analysis of traditional housing sales for the same period, with a three-month moving average, reveals a price change of 4.7%. Short sales and foreclosure sales had price decreases of 7.3% and 10.1% respectively. The Case-Shiller Index also uses a three-month moving average.

About the Author

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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.

August 2014

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.