

Housing Equilibrium

CBSA Level Housing Inventory

April 11, 2014

U.S. home prices have experienced positive home price appreciation at the National level in the past 24 months, with more than 12% year-over-year gains in the past 12 months. The recent home price increases have been attributed, in part, to the steady decline of housing supply (Figure 1).

Currently, inventory of existing homes for sale is approximated at 2 million units representing about a 5-month supply of listed inventory and Shadow inventory¹ is estimated at 2.8 million units representing about 36-month distressed supply². Even though the current level of Shadow inventory is still high, it hasn't adversely impacted recent home price trends. The pace of liquidations of distressed homes has been extremely slow, which has resulted in a shortage of supply.

The measure "months of listed supply" offers a quick gauge for interim status of housing equilibrium, and has been highly correlated with home price changes (Figure 2 and 3). In the past two years, strong demand from institutional investors, employment growth, low interest rates, and high affordability have collectively reduced listed supply to be below six months. This demand-over-supply imbalance has resulted in double digit year-over-year home price appreciation in the past 12 months.

The housing equilibrium can change if there are more than expected liquidation of distressed properties from the pipeline, slowdown in employment growth, pullback of investor demand, continued weakness in household formation, and lower affordability.

Figure 1. Housing Inventory Trends

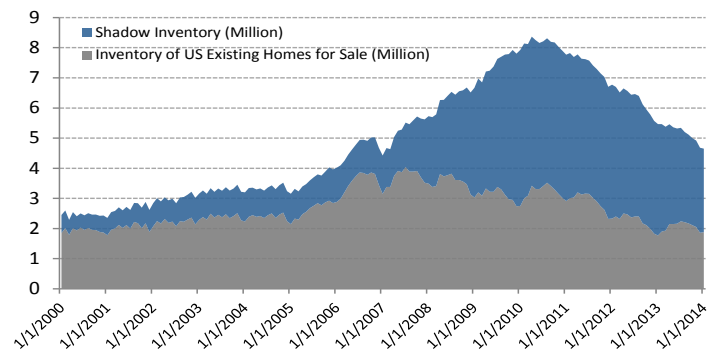
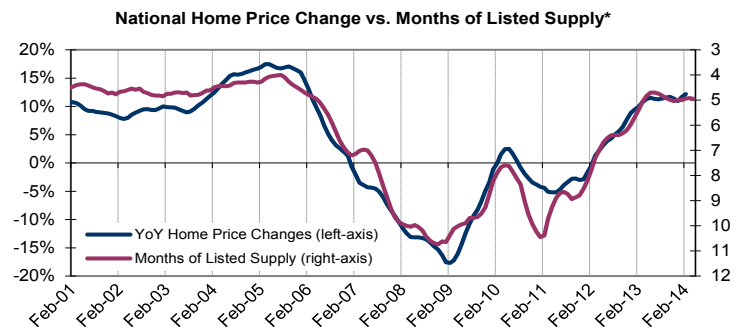
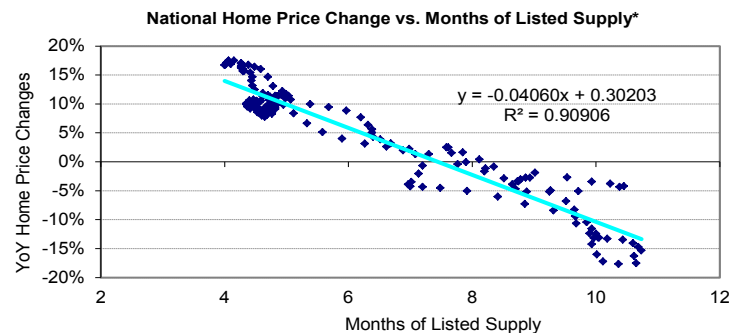


Figure 2



*Months of Supply is 6m average moved forward 6m (inverted right-axis)

Figure 3



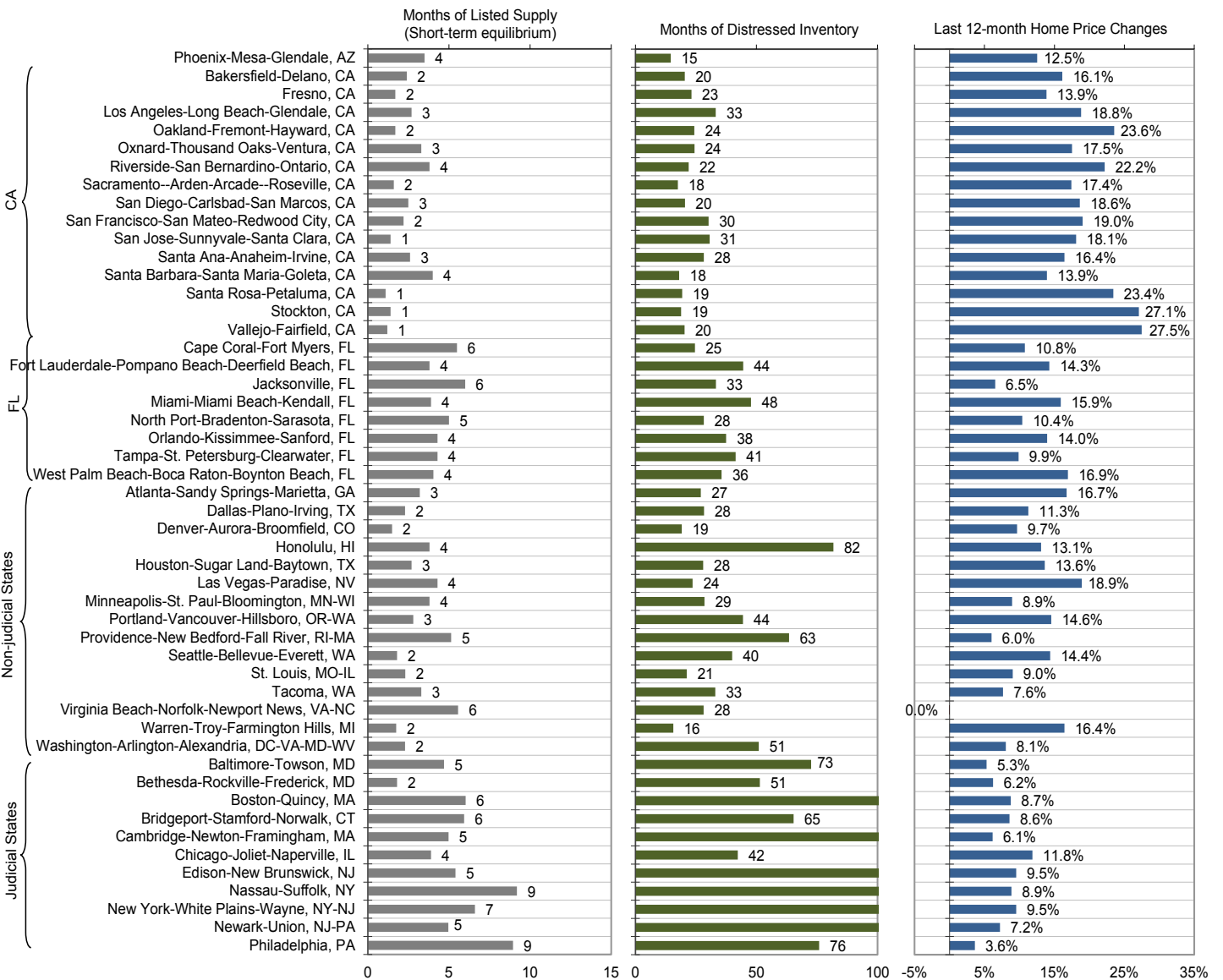
*Months of Supply is 6m average moved forward 6m

Source: CoreLogic, JBRFC, FBC

1. Shadow inventory consists of foreclosed homes and mortgages delinquent for 90 days or more.
2. Months of distressed supply is estimated as current shadow inventory level divided by average distressed sales in recent 12 months.

In the following chart, we provide metrics related to housing equilibrium and home price changes for the top 50 CBSAs in the U.S. CBSAs with lower months of listed supply and lower months of distressed inventory usually experienced higher home price increases. CBSAs in judicial states with months of distressed inventory as high as several years¹ still experienced home price appreciation as short term inventory equilibrium was not disrupted. The pace of home price appreciation may change if factors impacting short-term equilibrium deteriorate. For example, Phoenix experienced accelerated home price appreciation of more than 20% year-over-year gain when its listed supply dropped to 2 months in year 2012-2013 due to strong investor demand. Its pace of home price appreciation began to slow down (from 24% to 12% year-over-year gain) since 2013 as investors pulled back demand and the months of listed supply trended up to 3.5 months.

Figure 4. Housing Supply of Top 50 CBSAs



Sources: Office of Management and Budget, John Burns Real Estate Consulting, CoreLogic, FBC

3. Certain CBSAs in judicial states, such as Nassau-Suffolk NY, New York-White Plains-Wayne NY-NJ, and Newark-Union NJ-PA, continue to have large amount of distressed properties in the pipeline due to extremely long liquidation timeline.

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