

# FORECLOSURES AND SHORT SALES IN THE TWIN CITIES HOUSING MARKET

A SPECIAL RESEARCH REPORT FROM THE MINNEAPOLIS AREA ASSOCIATION OF REALTORS®

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**F**oreclosures and short sales (i.e. lender-mediated properties) have become topics of great interest over the past year. With these unfortunate events becoming more frequent, community vitality, the housing market and the broader economy have been substantially affected.

Foreclosures and short sales are significantly different than traditional real estate activity because a lender is intimately involved in the transaction—either by acting directly as the current owner/seller in the case of a foreclosure, or as a less-direct intermediary with approval powers in the case of a short sale.

Foreclosures are properties in which the financial institution has repossessed the home from the owner due to non-payment of mortgage obligations. Short sales are unique arrangements where the financial institution and in-default home owner work together in an attempt to sell the home before it is foreclosed upon. Lenders are highly motivated “sellers” in both situations, which can result in discounted asking prices as they attempt to move the assets quickly from their balance sheets.

The Minneapolis Area Association of REALTORS® and Aaron Dickinson of Edina Realty have worked together to develop a new methodology for



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identifying and tracking market trends on these lender-mediated properties that utilizes data from the Northstar MLS system (RMLS). This is real-time data from the housing market, and provides a detailed look at how the influx of foreclosures and short sales moving through the Twin Cities housing market is affecting the decisions of buyers and sellers.

The following is a summary of our findings and an explanation of our methodology.



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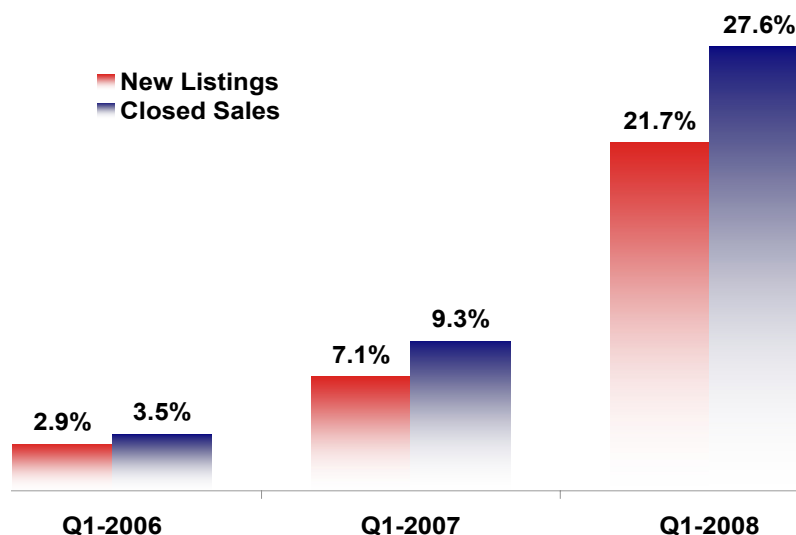
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## LENDER-MEDIATED ACTIVITY AS PERCENT OF TOTAL MARKET (FIGURE 1)

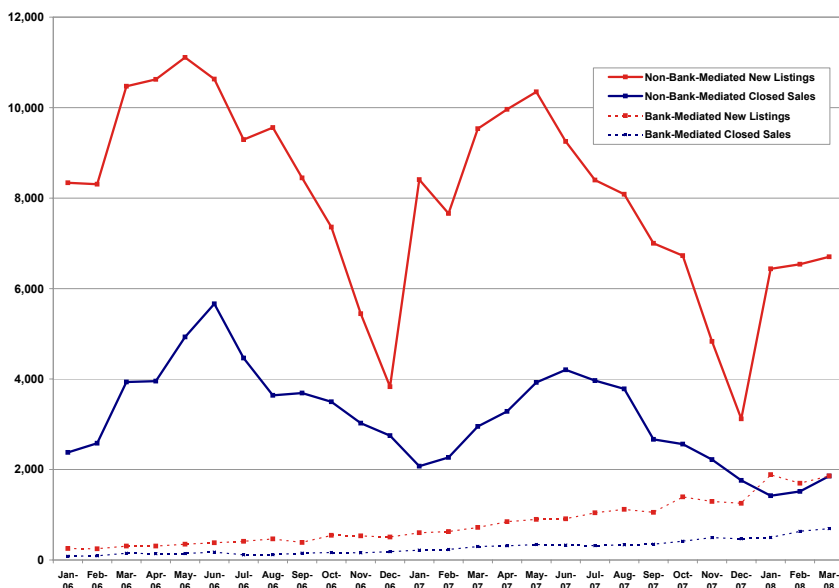
Reported in RMLS for the 13-City Metro Area, Includes All Residential Properties

### INCREASING MARKET SHARE

Not surprisingly, lender-mediated homes have seen a substantial increase in total market share over the last 24 months. The percent of total new residential listings in the Twin Cities 13-county region that are flagged as foreclosures or short sales using our methodology has shown steady growth, rising from 2.9 percent in Q1 2006 to 7.1 percent in Q1 2007 and 21.7 percent in Q1 2008 (Figure 1).



### MONTHLY MARKET ACTIVITY (FIGURE 2)



The increasing share of lender-mediated properties is not just a matter of an increase in foreclosures and short sales; traditional, non-bank-mediated sellers have dropped their output to lower levels, a phenomenon which has been misunderstood until now. The actual number of traditional seller new listings has fallen by 27.4 percent over the last two years, with only 19,675 in Q1 of this year compared to 27,116 in Q1 of 2006 (Figure 2). So clearly, homeowners are holding steady in their current residences with greater frequency and home builders are producing far less new inventory.

The market share picture is similar for home sales, with foreclosures and short sales comprising a larger portion of overall sales than they have before. In Q1 2008, 27.6 percent of total residential closed sales were mediated by a financial institution, up substantially from the first quarter of the two years prior. And the number of traditional closed sales fell from 8,896 in Q1 2006 to 4,790 in Q1 2008, while the number of bank mediated sales increased from 324 to 1,828 for the same time period comparison.

Lender-mediated transactions are being absorbed with a relative degree of quickness and aren't necessarily languishing on the open market. Our Supply-Demand Ratio shows that the lender-mediated market only offered 5.37 homes for every buyer in April, a relatively healthy number.

## HOME VALUES

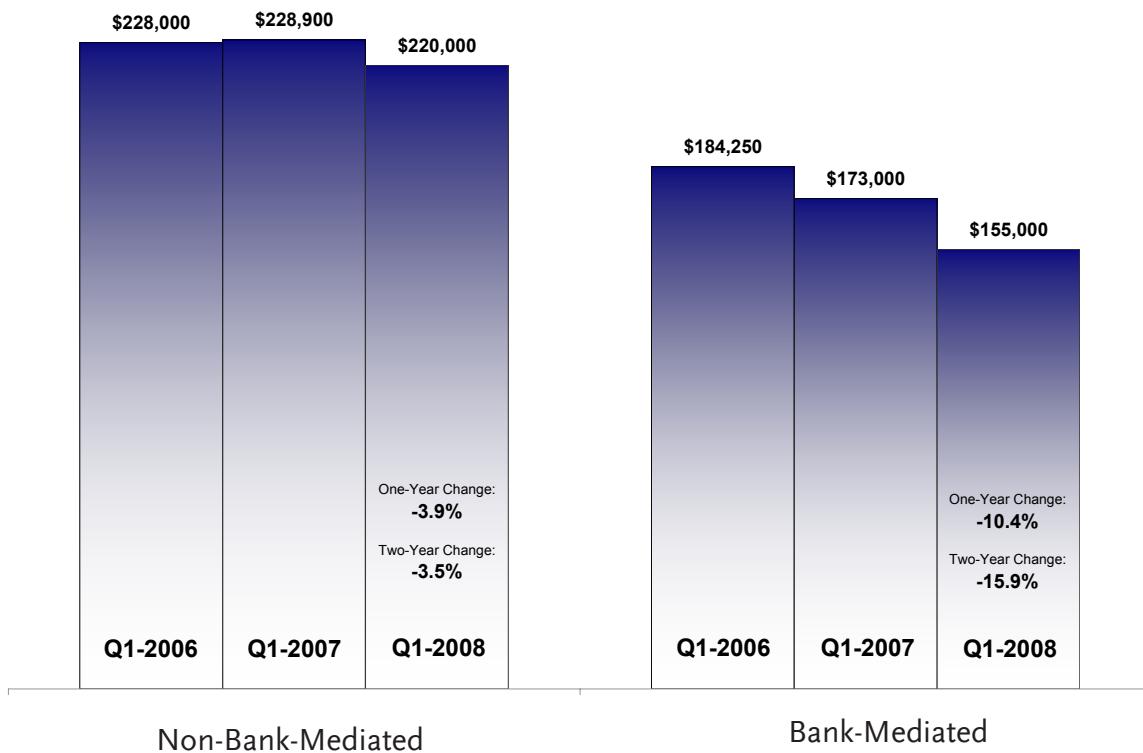
This higher market share places a heavy downward weight on aggregate sales price figures, giving many the erroneous impression that the housing market in its entirety is seeing massive declines in value. In reality, the lender-mediated market and the traditional seller market are experiencing stark differences.

As has been widely reported in recent months (including in our own research products), the median sales prices of Twin Cities homes in the first quarter of 2008 were 10.3 percent below the first quarter of 2007—a sizeable and conspicuous decline. But lost in the hub-bub—and partly because no one had the data until now—is that

the traditional sales market that does not include foreclosures and short sales saw only a 3.9 percent decline in median sales price during the same time period.

The foreclosure and short sale market has seen a drop of 15.9 percent in median sales price from Q1 2006 to Q1 2008 (Figure 3). The traditional seller, however, has only seen declines of 3.5 percent in median sales price. So while both housing segments are experiencing declining home values as the market sits in the buyer’s favor, traditional properties are not experiencing the same levels of decline as is commonly presumed and reported.

**FIRST QUARTER MEDIAN SALES PRICE (FIGURE 3)**



## WHAT'S FOR SALE

As of May 1st, a total of 6,594 properties were for sale in the Twin Cities metro region that were lender-mediated foreclosures or short sales. While this represents an extremely small portion of total housing units, they account for 20.2 percent of homes currently for sale in the region (Figure 4). The single-family detached inventory of homes for sale is 22.6 percent lender-mediated, compared to 18.0 percent for townhomes and only 8.5 percent for condominiums.

There is a direct and exponential relationship between price range and the share of inventory that is lender-mediated. The higher price ranges see a

much smaller percentage of their inventory flagged as foreclosures or short sales, and the difference between the market shares seen at under \$120,000 (51.8 percent) and \$1 million and above (1.2 percent) are dramatic, though unsurprising given the “priced-to-move” strategy employed by lender when selling real estate.

It's important to remember that these available lender-mediated properties only comprise a tiny sliver of the region's total housing stock. The inventory share figures mentioned above pertain only to the total amount of properties for sale, not total housing units.

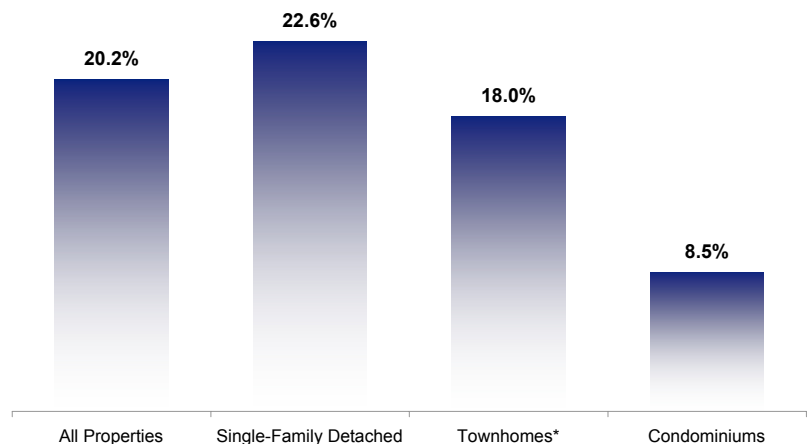
## BANK-MEDIATED PROPERTIES IN ACTIVE INVENTORY (FIGURE 4)

AS OF MAY 1ST, 2008

Property Type	Bank-Mediated Inventory	Total Inventory	Share
<b>All Properties</b>	<b>6,549</b>	<b>32,368</b>	<b>20.2%</b>
Previously Owned	6,341	28,043	22.6%
New Construction	208	4,325	4.8%
<b>Single-Family Detached</b>	<b>5,080</b>	<b>22,501</b>	<b>22.6%</b>
Previously Owned	4,968	20,394	24.4%
New Construction	112	2,107	5.3%
<b>Townhomes*</b>	<b>1,193</b>	<b>6,627</b>	<b>18.0%</b>
Previously Owned	1,106	5,334	20.7%
New Construction	87	1,293	6.7%
<b>Condominiums</b>	<b>275</b>	<b>3,238</b>	<b>8.5%</b>
Previously Owned	267	2,314	11.5%
New Construction	8	924	0.9%

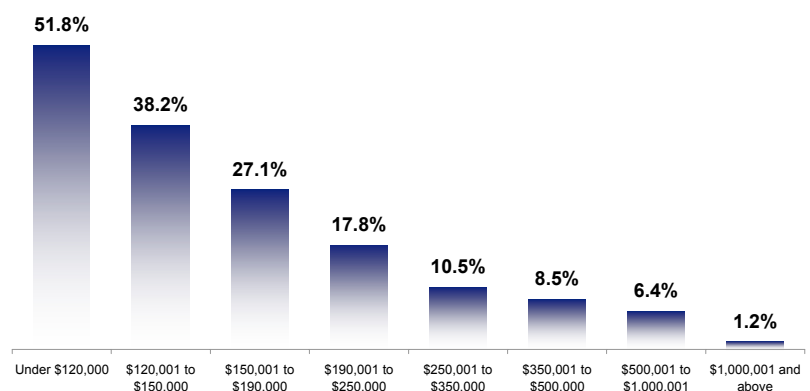
\*Includes twinhomes

Share of Each Property Type's Inventory that is Bank-Mediated



Price Range	Bank-Mediated Inventory	Total Inventory	Share
<b>Under \$120,000</b>	<b>1,398</b>	<b>2,698</b>	<b>51.8%</b>
<b>\$120,001 to \$150,000</b>	<b>1,150</b>	<b>3,013</b>	<b>38.2%</b>
<b>\$150,001 to \$190,000</b>	<b>1,558</b>	<b>5,743</b>	<b>27.1%</b>
<b>\$190,001 to \$250,000</b>	<b>1,288</b>	<b>7,243</b>	<b>17.8%</b>
<b>\$250,001 to \$350,000</b>	<b>618</b>	<b>5,885</b>	<b>10.5%</b>
<b>\$350,001 to \$500,000</b>	<b>330</b>	<b>3,883</b>	<b>8.5%</b>
<b>\$500,001 to \$1,000,001</b>	<b>196</b>	<b>3,072</b>	<b>6.4%</b>
<b>\$1,000,001 and above</b>	<b>10</b>	<b>831</b>	<b>1.2%</b>
<b>All Price Ranges</b>	<b>6,548</b>	<b>32,368</b>	<b>20.2%</b>

Share of Each Price Range's Inventory that is Bank-Mediated



## SO WHAT DOES THIS ALL MEAN?

The increase in foreclosures and short sales presents substantial challenges to consumers, communities and lenders. It causes personal hardship, destabilizes neighborhoods, hurts consumer wealth-creation and slows economic growth.

There are also consequences for our housing market, and the increased prevalence of these types of lender-mediated properties is having an undeniable

impact. With higher rates of loan defaults and foreclosures expected to continue, lender-mediated transactions will remain a factor in our market into the foreseeable future.

This new research methodology gives us a powerful tool to paint a more detailed picture of our environment. Moving forward, this allows us to better understand the lender-mediated market cycle.

## POST-SCRIPT:

### A FINAL NOTE ON METHODOLOGY

There is currently not a “one-size-fits-all” *database* definition of what a “foreclosure” or “short sale” is. As such, there is not yet a neatly organized data marker in the RMLS system which flags these properties. So, to identify which homes were lender-mediated and which were not, we searched through the subjective remarks that REALTORS® employ when listing properties.

Through extensive research—as well as quality cross-checking with other data sources—these 20 phrases were identified as commonly indicative of a foreclosure or short sale property in the RMLS system:

- Bank owned
- Short sale
- Bank approv
- Lender approv
- 3rd party approv
- Foreclosure
- Preforeclosure
- Forclosure
- Preforclosure
- Subject to bank
- Subject to 3rd
- Subject to lender
- Redemption
- Shortsale
- REO
- Hud acquire
- Subject to corp
- Corporate owned
- Corp owned
- Corp. owned

With these terms as our guide, we were able to create an automated data procedure to separate properties which were flagged with these terms from those that were not, forming their foundation of our analysis. Therefore, it should be noted that this is **not foreclosure data**, nor should it be construed as such. Rather, this is simply a measurement of reported instances of terms commonly used to describe foreclosures and short sales in the RMLS system.