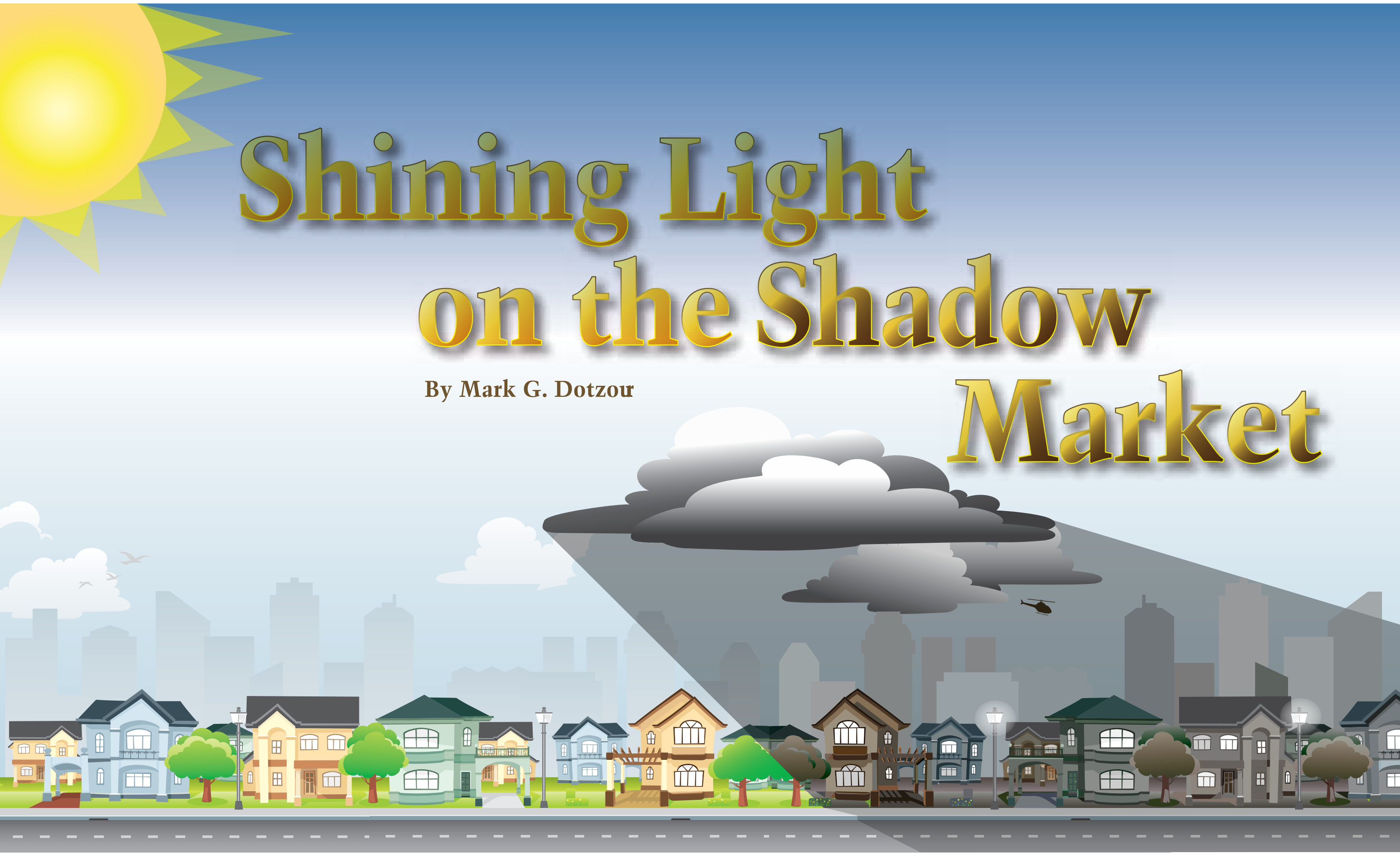
A Reprint from *Tierra Grande* magazine



Shining Light on the Shadow Market

By Mark G. Dotzour

The housing market continues to recover. Home sales are up, prices have stabilized, and inventories are low in most Texas markets. Previous Real Estate Center studies have shown that home sales volume is largely correlated with three things: job growth, lower interest rates and positive home price appreciation.

Home sales in 2008, 2009 and 2010 were sluggish all over America despite low interest rates because of job losses and falling home prices in many parts of the country. Job growth started to increase in 2011, but homebuyers were still skeptical because of the possibility of falling prices. As we passed through 2012, job growth continued, mortgage rates were low and the fear of falling prices began to fade into the mist of history.

Inventory levels of homes for sale (as reported by the local Multiple Listing Services [MLS]) are extremely low in some Texas markets and at manageable levels elsewhere across the state. When inventory levels are high, prices can fall. When inventory levels are low, prices start to take off again. Each month the Real Estate Center reports the number of homes sold and the number of months of inventory in the market.

Some real estate market analysts have said that the recovery in the housing market won't be complete until the "shadow inventory" of houses is put on the market and sold. The shadow inventory could be defined as the number of homes in a local market that have seriously delinquent loans on them, are in the process of foreclosure, or have been foreclosed but not yet sold. These houses create a pipeline of additional inventory that will eventually be put up for sale and compete for buyers.

The term *shadow inventory* is a perfect description of these houses with troubled loans because the information about these houses is not frequently or widely published. It's nearly impossible to get a precise measure. It's easy to know how many homes are currently listed in the MLS. But companies that service mortgage loans have no reason to publish their results or to enumerate publicly how many troubled loans they are caretaking in each metropolitan area.

Lender Processing Services (LPS) provides periodic reports to the national media with statistics about the number of delinquent loans, the number of homes in foreclosure and the number of homes that have been foreclosed and are still owned by the lender. LPS has loan-level data for nearly 40 million active loans in America. The Real Estate Center worked with LPS to provide a snapshot of the shadow inventory in Texas metropolitan areas. This report provides the first public glimpse into the murky waters of shadow inventory at the local level.

Table 1 shows how Texas compares with California and Florida in mortgage loan distress. In Florida, nearly 21 percent of all loans reported by LPS haven't received a payment in more than 90 days. A sizable portion of these loans will be foreclosed upon in coming months, adding to the current inventory of homes for sale in the marketplace.

In California, 7.8 percent of the loans are seriously delinquent. Just 5.3 percent of the loans in Texas are seriously delinquent. Clearly the pipeline of troubled properties likely to come into the market in the next year is much smaller in Texas.

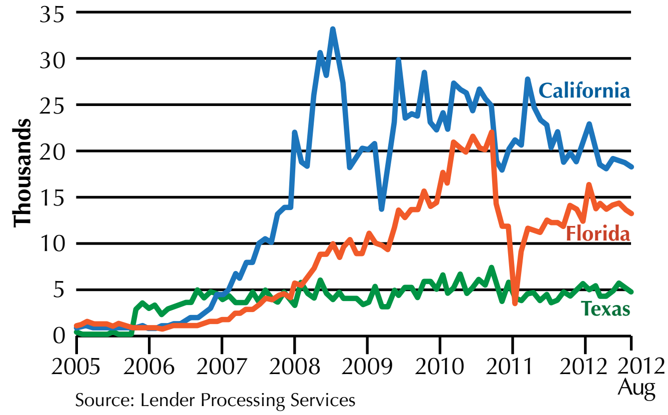
From Table 1, we can infer there were more than 100,000 Texas houses in foreclosure or presently owned by the lender. These properties will eventually make their way back into the marketplace.

For comparison purposes, Figure 1 shows the number of foreclosure sales in Texas, Florida and California on loans monitored by LPS over the past eight years. In California, foreclosure sales exploded to more than 30,000 per month by 2008 and have been trending downward for the past three years. However, there are still close to 20,000 homes per month sold in foreclosure.

Florida sales peaked in 2010 at more than 20,000 homes per month and still remain at elevated levels. The Texas situation has clearly been more moderate. The number of homes sold per month at foreclosure has been steady at about 5,000 per month since 2006.

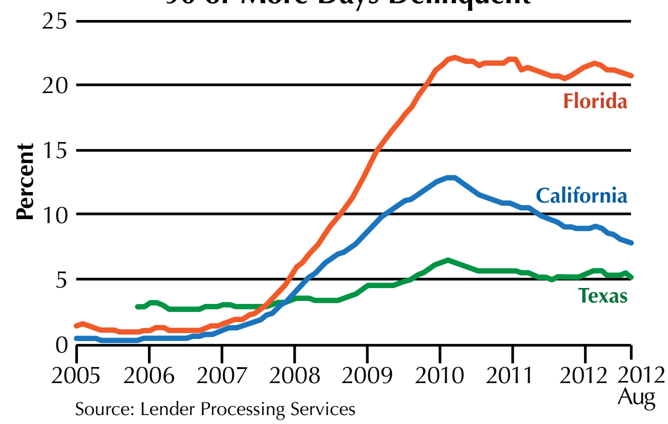
Figure 2 offers another interesting comparison between Texas, Florida and California. It shows the percentage of all loans that are at least 90 days delinquent. This could be viewed as the pipeline of new foreclosure and short sales in coming months.

Figure 1. Foreclosure Sales per Month



Source: Lender Processing Services

Figure 2. Percent of Loans 90 or More Days Delinquent



Source: Lender Processing Services

Table 1: State Comparisons of Troubled Loan Performance as of July 31, 2012

	Active Loans	Loans Delinquent 90+ Days	Loans in Foreclosure	Real Estate Owned	Active Loans 90+ Delinquent (Percent)	Active Loans in Foreclosure (Percent)
California	6,863,026	536,948	194,768	103,311	7.8	2.8
Florida	3,804,866	786,119	537,253	78,244	20.7	14.1
Texas	3,720,110	195,491	61,027	39,476	5.3	1.6

Source: Lender Processing Services

Currently, more than 20 percent of all active loans in Florida are more than 90 days delinquent. The rate has remained at this elevated level since early 2010. California peaked in 2010 at about 13 percent and is reporting a continual reduction in delinquency.

The Texas market's delinquency peaked at more than 5 percent in early 2010, and the trend has stabilized at this relatively

low level. From this figure alone, it is apparent the foreclosure drama is far from over in Florida, while California's situation is improving and Texas delinquencies are miniscule by comparison.

The Texas mortgage loan market is healthy compared with other more distressed areas of the country. This is a key reason that home prices have been essentially stable for the past three years, while other markets have seen substantial price declines.

Table 2 shows mortgage performance information for all Texas metropolitan areas at the end of July 2012. The number of loans reported by LPS and included in the data is labeled "active loans."

For example, LPS reported 18,023 active loans on homes located in Abilene on July 31, 2012. Of those loans, 670 had not made a payment in more than 90 days. There were 207 loans in foreclosure, and the banks owned 142 homes. Only 3.7 percent of the loans were 90+ days delinquent, and only 1.1 percent of the properties were owned by the bank lenders.

**Table 2. Troubled Loan Performance for Texas Metro Areas
July 31, 2012**

	Active Loans	Loans Delinquent 90+ Days	Loans in Foreclosure	Real Estate Owned	Loans Delinquent (Percent)	Loans in Foreclosure (Percent)
Abilene	18,023	670	207	142	3.7	1.1
Amarillo	26,891	1,232	361	206	4.6	1.3
Austin-Round Rock	348,455	12,685	4,395	2,673	3.6	1.3
Beaumont-Port Arthur	33,646	2,092	642	388	6.2	1.9
Brownsville-Harlingen	35,395	2,124	617	423	6.0	1.7
College Station-Bryan	26,613	577	193	110	2.2	0.7
Corpus Christi	54,555	2,876	890	557	5.3	1.6
Dallas-Plano-Irving	786,138	44,666	13,511	8,732	5.7	1.7
El Paso	92,474	4,902	1,462	700	5.3	1.6
Fort Worth-Arlington	376,966	22,334	6,487	4,285	5.9	1.7
Houston-Sugar Land-Baytown	998,959	55,692	17,732	12,115	5.6	1.8
Killeen-Temple-Fort Hood	70,957	3,488	981	547	4.9	1.4
Laredo	23,800	1,657	480	303	7.0	2.0
Longview	17,577	942	307	228	5.4	1.7
Lubbock	39,955	1,438	478	253	3.6	1.2
McAllen-Edinburg-Mission	53,768	3,691	1,353	766	6.9	2.5
Midland	17,111	309	125	43	1.8	0.7
Odessa	12,119	318	116	43	2.6	1.0
San Angelo	12,944	370	130	50	2.9	1.0
San Antonio	350,444	17,759	5,205	3,140	5.1	1.5
Sherman-Denison	16,157	1,005	307	242	6.2	1.9
Texarkana, Tex.-Texarkana, Ark.	7,965	443	153	97	5.6	1.9
Tyler	23,178	1,074	372	248	4.6	1.6
Victoria	10,829	461	147	103	4.3	1.4
Waco	26,289	1,236	371	234	4.7	1.4
Wichita Falls	15,150	865	251	147	5.7	1.7

Source: Lender Processing Services

Finally, Table 3 shows the number of foreclosure sales of properties with loans monitored by LPS. The number of foreclosure sales in any given metro area can vary substantially from one month to the next, so the reported numbers are the average

Table 3. Average Foreclosure Sales per Month

Metro Area	All of 2006	First Seven Months of 2012	Percent Chance
Texas	3,593	4,896	36.2
Abilene	14	20	42.8
Amarillo	29	32	10.3
Austin	278	363	30.5
Beaumont	17	47	176.4
Brownsville	35	50	42.8
College Station	9	17	88.9
Corpus Christi	41	67	63.4
Dallas	1,031	1,140	10.5
El Paso	38	89	134.2
Fort Worth	488	558	14.3
Houston	915	1,386	51.4
Killeen	58	88	51.7
Laredo	21	39	85.7
Longview	13	26	100.0
Lubbock	27	41	51.8
McAllen	50	77	54.0
Midland	6	8	33.3
Odessa	9	7	–22.3
San Angelo	9	11	22.2
San Antonio	215	390	81.4
Sherman	22	32	45.4
Texarkana	7	12	71.4
Tyler	18	30	16.7
Victoria	11	11	0.0
Waco	23	33	43.5
Wichita Falls	13	20	53.8

Source: Lender Processing Services

number of foreclosure sales per month for the first seven months of 2012 and for all 12 months in 2006.

The year 2006 was used for comparison because it represents the last year before the housing mortgage crisis began in earnest. The table shows that in Texas LPS reported there were 3,593 homes to be sold each month in 2006. By 2012, this number had increased more than 36 percent to 4,896 foreclosure sales per month. The foreclosure sales experience varies widely across Texas metropolitan areas.

The housing market took a heavy body blow in 2007 and has been under duress ever since. However, that situation is gradually changing. The data indicate the housing market is improving. Delinquency rates are still elevated but no longer increasing. Foreclosure sales are still happening at elevated levels, but the local markets in Texas are digesting the extra inventory that comes from broken mortgage loans. The Texas housing market is not fully recovered, but it is getting there.

There is light at the end of the tunnel. It's not a train.

Dr. Dotzour (dotzour@tamu.edu) is chief economist with the Real Estate Center at Texas A&M University.

THE TAKEAWAY

The shadow inventory of houses will ultimately be foreclosed and sold because of the strength of the Texas economy and prudent lending. Shadow inventory in Texas is elevated but manageable and should represent little threat to the housing recovery here.

TEXAS A&M UNIVERSITY

REAL ESTATE CENTER

MAYS BUSINESS SCHOOL

Texas A&M University
2115 TAMU
College Station, TX 77843-2115

http://recenter.tamu.edu
979-845-2031

Director, Gary W. Maler; **Chief Economist,** Dr. Mark G. Dotzour; **Communications Director,** David S. Jones; **Managing Editor,** Nancy McQuistion; **Associate Editor,** Bryan Pope; **Assistant Editor,** Kammy Baumann; **Art Director,** Robert P. Beals II; **Graphic Designer,** JP Beato III; **Circulation Manager,** Mark Baumann; **Typography,** Real Estate Center.

Tierra Grande (ISSN 1070-0234) is published quarterly by the Real Estate Center at Texas A&M University, College Station, Texas 77843-2115. Subscriptions are free to Texas real estate licensees. Other subscribers, $20 per year. Views expressed are those of the authors and do not imply endorsement by the Real Estate Center, Mays Business School or Texas A&M University. The Texas A&M University System serves people of all ages, regardless of socioeconomic level, race, color, sex, religion, disability or national origin. Photography/Illustrations: Real Estate Center files, pp. 1, 3.

About the Real Estate Center

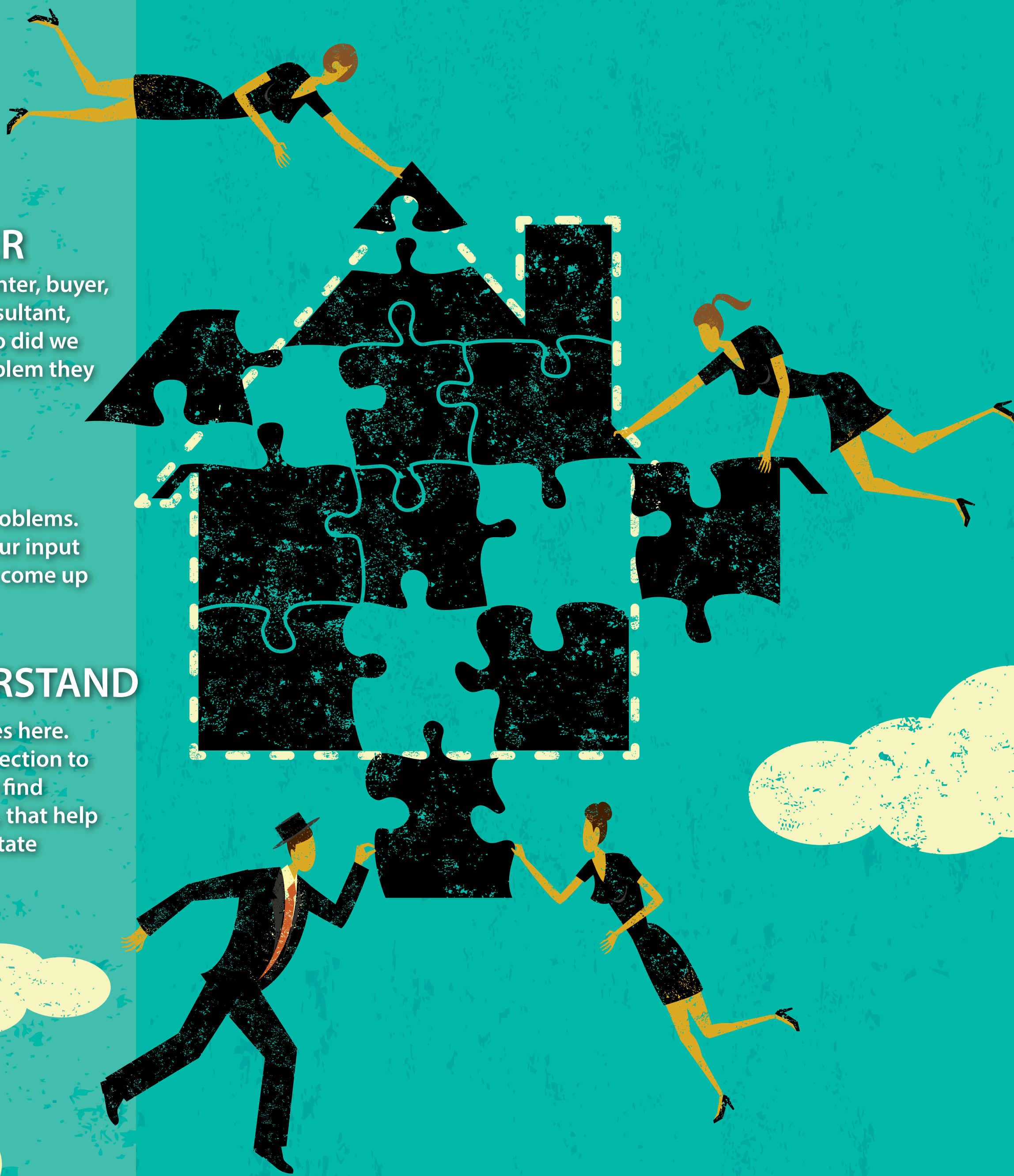
The Real Estate Center at Texas A&M University is the nation's largest publicly funded organization devoted to real estate research. The Center was created by the Texas Legislature in 1971 to conduct research on real estate topics to meet the needs of the real estate industry, instructors and the public.

Most of the Center's funding comes from real estate license fees paid by more than 135,000 professionals. A nine-member advisory committee appointed by the governor provides research guidance and approves the budget and plan of work.

Learn more at www.recenter.tamu.edu

WE HAVE ONE QUESTION.

WHAT'S YOUR PROBLEM?



REAL ESTATE

doesn't come with an instruction booklet.

SOONER OR LATER

every real estate owner, renter, buyer, seller, Realtor, builder, consultant, financier, appraiser or (who did we leave out?) runs into a problem they can't handle.

SEND US

your primary real estate problems. Our staff will categorize your input and see what solutions we come up with.

DON'T MISUNDERSTAND

We're not talking quick fixes here. Your problems will give direction to our research. The idea is to find answers, solutions or both, that help Texans make better real estate decisions.

To tell us about your problem

www.recenter.tamu.edu/WhatsYourProblem

REAL ESTATE CENTER
TEXAS A&M UNIVERSITY


IT WON'T LAST LONG
Time to take advantage of a special offer from the Real Estate Center is quickly disappearing.
English-Spanish Real Estate Glossary
(Kindle Version)
$2.99
English-Spanish Real Estate Glossary
Nearly 800 real estate terms defined, translated and explained in this e-book available from Amazon.com. A must-have for anyone with Spanish-speaking real estate clients.
No Kindle? No problem. Free Kindle reading apps are available for Windows, Macs, iPads, iPhones and most other desktop and mobile devices.
Offer melts away on Feb. 28, 2013
Order at amzn.to/XORCPP