



Media Alert

Distressed Sales Again on the Rise, Reaching 29% in January and Nearly 1 Million Distressed Sales During the Last Year According to First American CoreLogic

First American CoreLogic today released its first monthly report on distressed sales activity. The report below indicates that distressed home sales – such as short sales and real estate owned (REO) sales – accounted for 29 percent of all sales in the U.S. in January: the highest level since April 2009. The peak occurred in January 2009 when distressed sales accounted for 32 percent of all sales transactions (Figure 1). After the peak in early 2009, the distressed sale share fell to 23 percent in July, before rising again in late 2009 and continuing into 2010.

Distressed sales are non-arms length transactions such as REO or short sales. Market sales are arms-length transactions between a willing buyer and willing seller and they exclude distressed sales. Distressed sales have a very strong influence on home price trends and are an indicator of a housing market's health.

Data Highlights

- The rebound in distressed sales occurred due to increases in both the REO and short sales shares. The REO share increased to 22 percent in January 2010, up from 19 percent in December but down from a year ago when it was 27 percent (Figure 1). Short sales accounted for 8 percent of all sales in January, up from 7 percent in December and 5 percent a year ago. During the last 12 months, there were 974,000 distressed sales: 740,000 were REO sales and 234,000 were short sales.
- Among the largest 25 markets, Riverside, CA, had the largest percentage of distressed sales in January (62 percent), followed closely by Las Vegas (59 percent) and Sacramento (58 percent) (Figure 2). The top REO market was Detroit where the REO share was 48 percent, followed closely by Riverside (47 percent) and Las Vegas (45 percent). San Diego's short sale share was 19 percent in January, making it the highest ranked short sale market, followed by Sacramento (18 percent) and Oakland (16 percent). Although the top 10 markets for foreclosures are all located in Florida, only two Florida markets, Orlando and Cape Coral, made the top 10 distressed sale list. The most likely reason: Florida is a judicial state where foreclosures process through the courts and take quite a bit longer than in California, Arizona or Nevada, where non-judicial foreclosures are the norm.
- Among large markets, the biggest year-over-year declines occurred in California where the distressed sale share fell by over 10 percentage points in Oakland, San Diego, Los Angeles and Sacramento (Figure 3). The drop in the distressed share occurred generally in the most distressed markets. In markets with more moderate levels of distressed sales, the distressed share was relatively flat compared to the year ago levels. Orlando, Seattle and Houston were the only markets among the top 25 that experienced an increase in distressed sales, but the increases were small.



- Clearly there is a non-linear price response to distressed sales (Figure 4). At low shares of distress, the price discount¹ for distressed sales relative to market sales is high as the very few properties that are distressed are highly so. Examples of low distress/high price discount markets are Tulsa and Pittsburgh. At moderate to higher levels of distress, the price discount rises with the increase in the distressed sale share as expected. However, at very high distressed sale shares the price discount is much lower, which means that the prices in the two markets (distressed and non-distressed) begin to converge into one large distressed market. Examples of very distressed markets where the gap between distressed and non-distressed prices is small include Modesto, Bakersfield and Stockton.
- Distressed sales exhibit a strong temporal negative influence on home prices (Figure 5). Home prices did not begin to decline until late 2007 in response to the rapid rise in the distressed sale share. The trough in average home prices in early 2009 occurred at exactly the same time that distressed sales had peaked.
- The average non-distressed market-sale price in January was \$247,700 but the distressed average price was \$161,600. The average REO price was \$141,900, compared to \$215,300 for short sales. The discount between market sales and distressed sales is currently about one-third and has been running at the low-to-mid 30s during the last 12 months (Figure 6).

Methodology:

The home sales data was extracted from First American CoreLogic's public record property transactions database that covers over 2,200 counties in the US. These sales cover about 85% of all sales transactions. Real estate owned (REO) transactions are bank owned properties that are sold to a third party and recorded as deed transfers. Short sales are identified by comparing the sales price to the 1st and 2nd lien mortgage amounts (which includes cash-out refinances) to determine the total amount of mortgage debt. If the sales price is less than the debt amount, it's considered a short sale.

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¹ The price discount is calculated as the percentage difference between non-distressed average price and distressed average price within a market at a point in time. For example, if the non-distressed average sale price was \$200,000 and the distressed averaged sale price was \$160,000, the price discount was 20%.



Figure 1: Distressed Sale Share of Total Resales

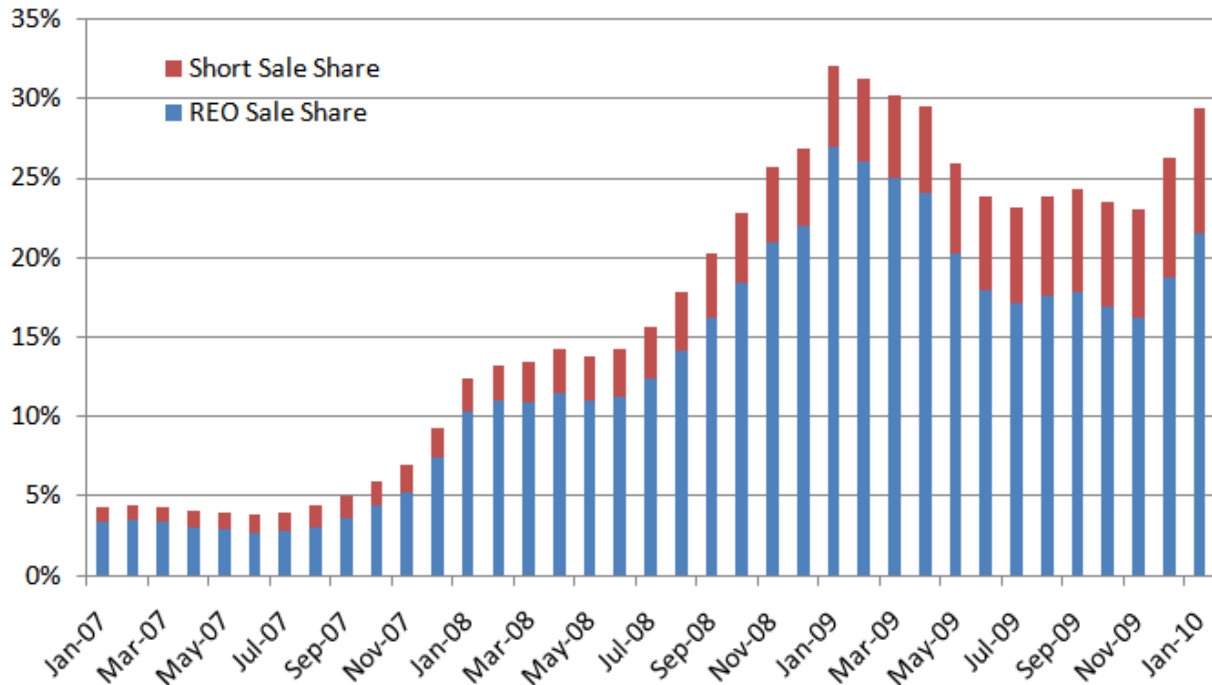


Figure 2: Distressed Home Sale Share

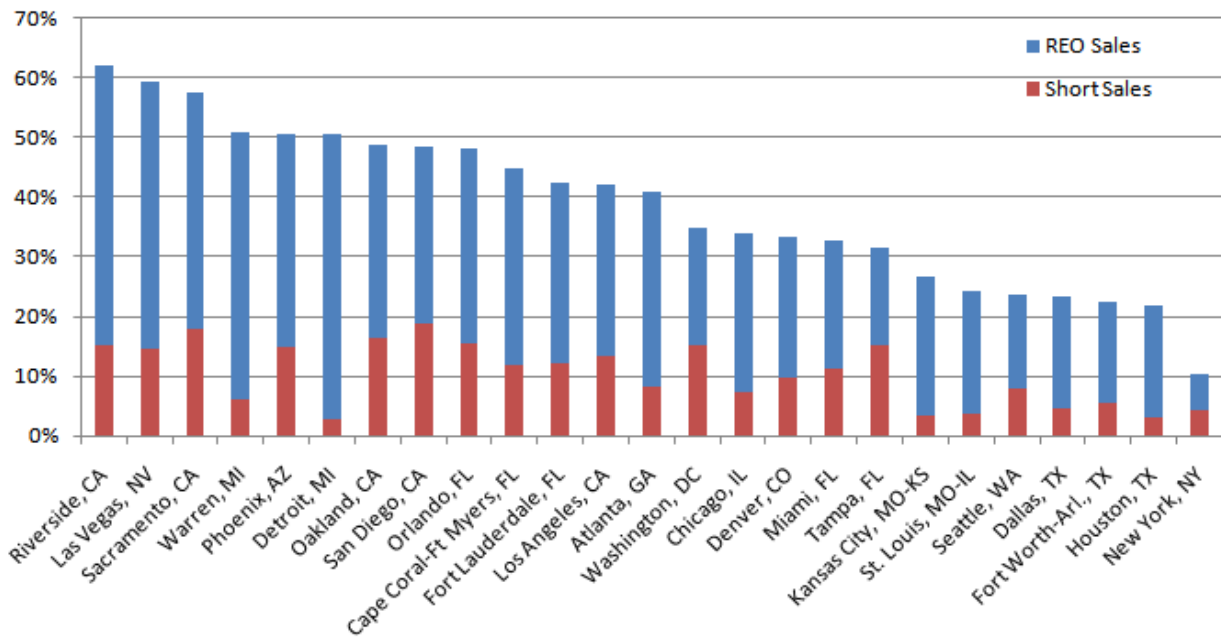




Figure 3: Distressed Home Sale Share

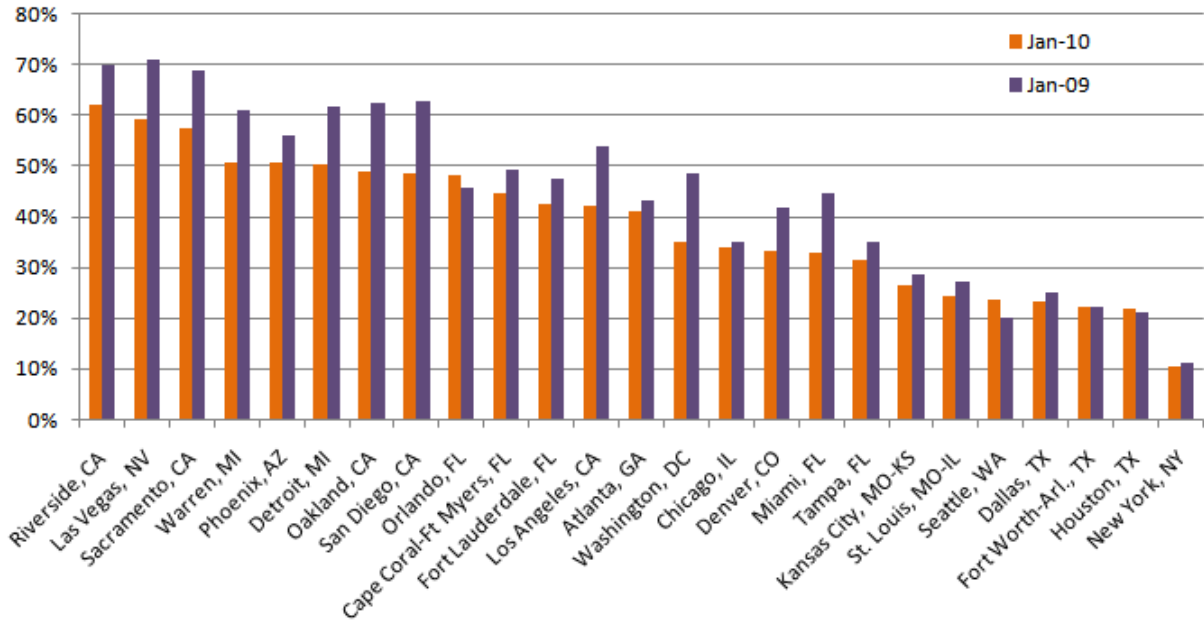


Figure 4: Distressed Price Non-Linear Response to Distressed Share

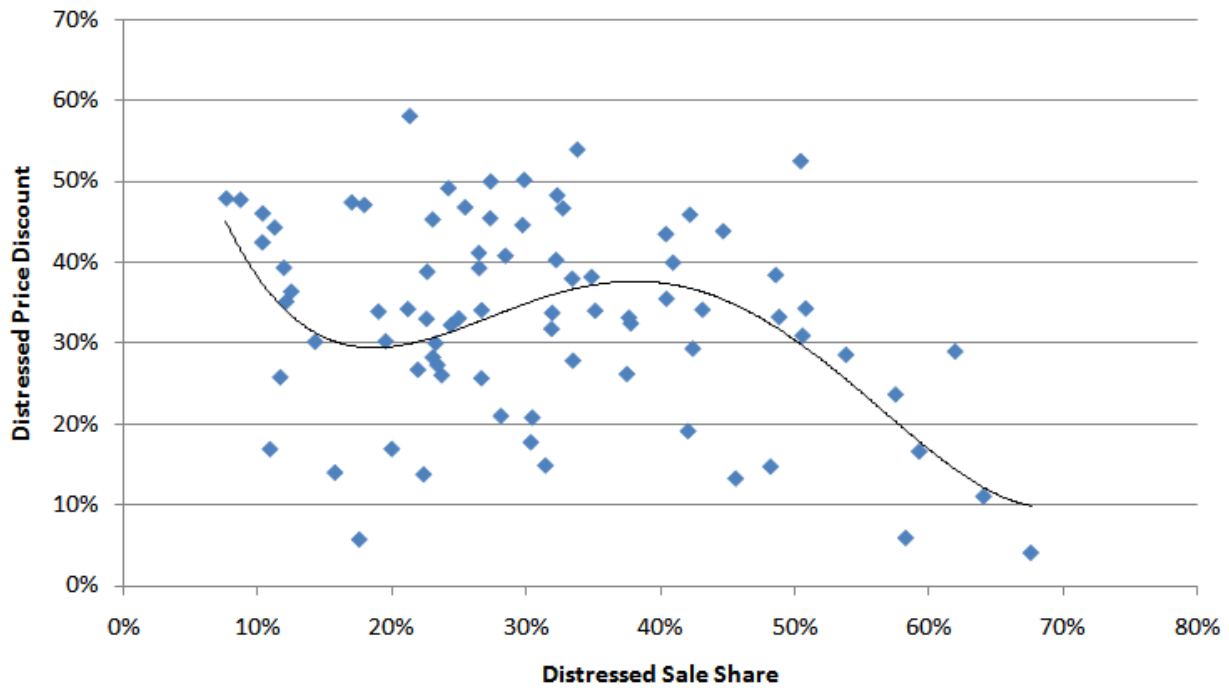




Figure 5: Distressed Sale Share Heavily Influences Prices

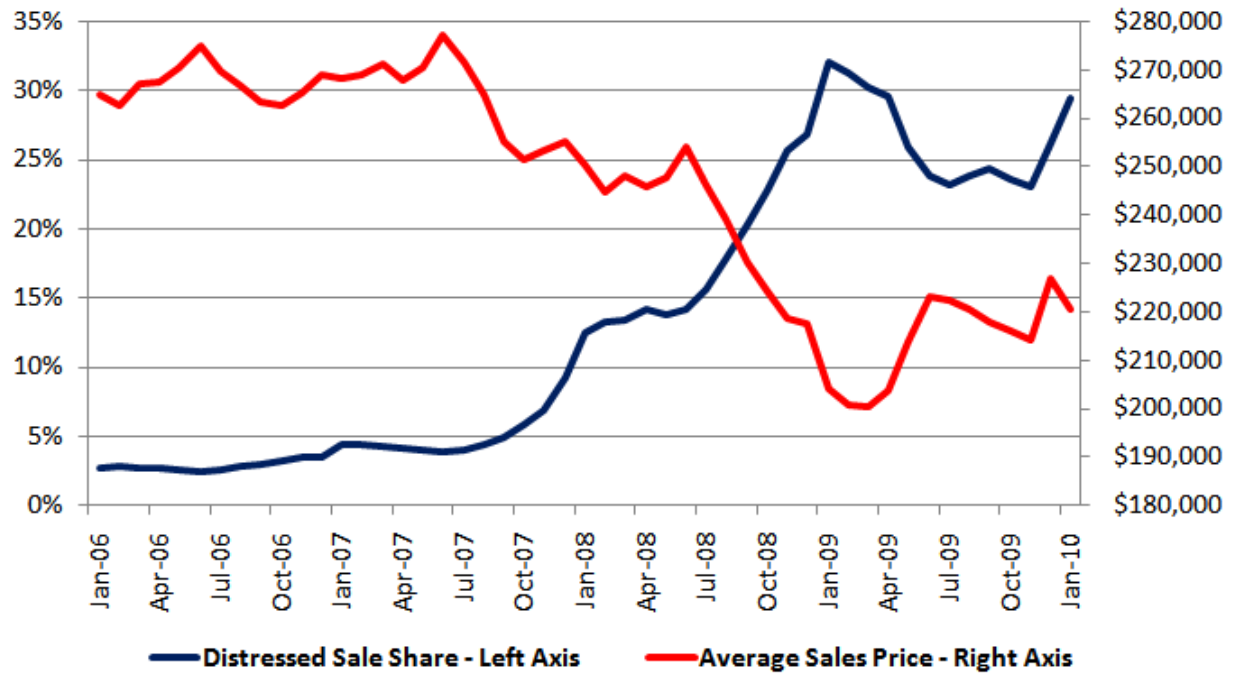
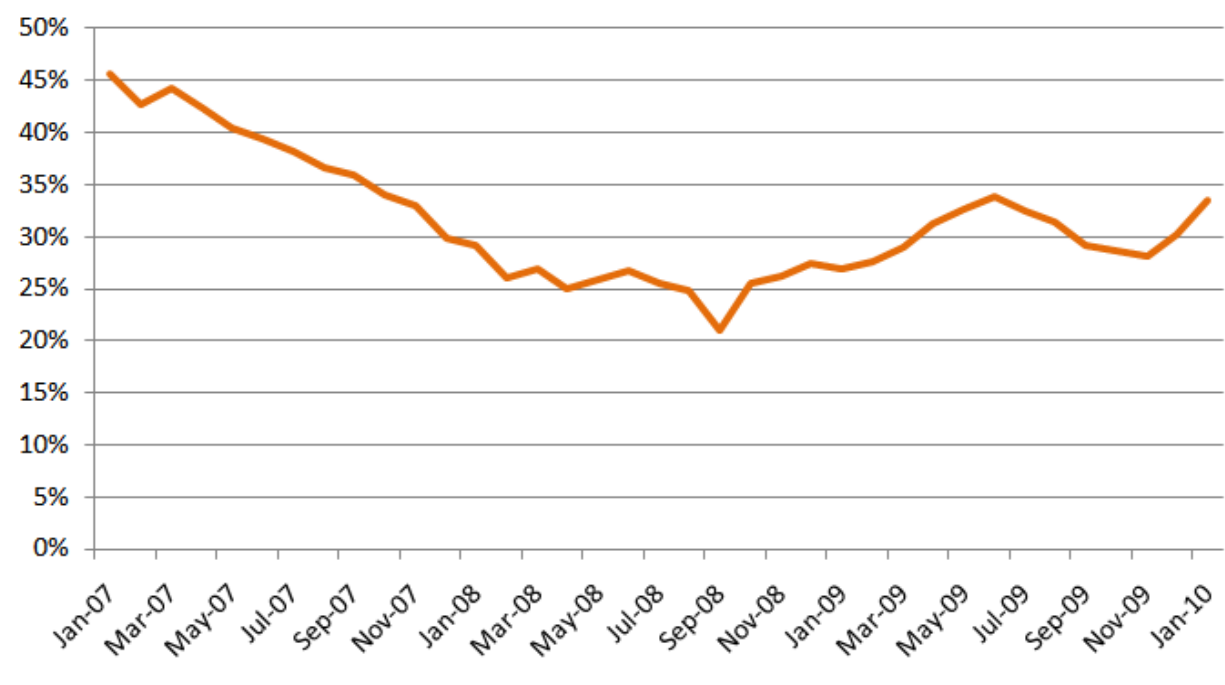


Figure 6: Distressed Sales Price Discount Relative To Market Resales





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