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Radar Logic index launches, covering 25 markets

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By Stephen Bedikian

Last week, another player launched a set of residential property indices in the race to enable trading in derivative instruments and financial products. Morgan Stanley, Lehman Brothers and Merrill Lynch signed licensing agreements with New York–based ***Radar Logic*** Inc. for its Residential Property Index, or RPX.

Radar Logic uses proprietary modeling techniques to create "daily prices" derived from actual prices paid for U.S. residential real estate. The indices are based on the price per square foot in 25 markets and a composite index, and will be published nine weeks after the actual closing date. The indices will be published each day for several time periods: daily, seven days and 28 days.

Also last week, the Chicago Mercantile Exchange announced that housing futures and options contracts based on the S&P/Case–Shiller U.S. National Home Price and Composite Indices would be extended out to five years. These indices are published each month for a one–month period. The most recently released indices were published on July 31 for the May 2007 period.

The S&P/Case–Shiller and RPX indices differ not only in timeliness but also in market coverage and methodology. The S&P/Case–Shiller indices cover 20 markets (with CME contracts only trading for 10 markets) while the RPX indices cover 25 markets. The S&P/Case–Shiller indices use the repeat sales pricing technique to measure housing markets by collecting data on single–family home resales, capturing resold sale prices to form sale pairs. The indices track the appreciation or depreciation occurring for resale properties across a market area but do not include condo, new home or foreclosure sales.

The RPX indices are computed based on price per square foot –– not just sale price –– and include resale, foreclosure, condo and new–home property transactions. The "daily prices" are likely to be quite volatile based on the actual sale prices paid for properties sold on a specific day nine weeks prior to the actual publication date. The results will not be adjusted for seasonality.

Both sets of indices are being used by Wall Street to create new financial products to enable trading, for hedging or speculative purposes, in the residential real estate market. According to Federal Reserve statistics, the aggregate value of residential housing assets was $22.9 trillion as of March 31, 2007. That's larger than the U.S. equity market.

For property investors, developers and owners, these tools should ultimately mean lower risk and greater efficiency. According to ***Michael Feder***, president and CEO of ***Radar Logic***, "Property developers usually negotiate interest–rate caps to manage their rate risk on condo developments, and now they will be able to buy a series of puts to essentially lock in prices for a development before breaking ground." This is very much as farmers lock in prices for all or part of their crops at the time of planting. Right now a lot of home builders with rapidly decreasing book values would probably liked to have hedged the price risk on their new home or condo developments a couple of years ago.

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Highlights: Radar Logic, Michael Feder

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