RPX YEAR IN REVIEW 2012

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It's Not a Recovery, Yet

Broad Housing Metrics Improved in 2012, but Overstate Recovery in Home Prices

From November 2011 to November 2012, the RPX Composite price increased 9.2 percent year over year, but this increase reflects a significant shift in the composition of home sales and overstates the appreciation in individual properties. During the twelve months ending November 2012, REO sales and foreclosure auction sales (i.e., "motivated sales") declined from 24 percent of transactions to 12 percent (Exhibit 1). Over the same period the 25-MSA composite price for motivated sales was 32 to 39 percent lower than the composite price for all other sales, including home sales by households and builders (i.e., "non-motivated" sales). When we control for the shift in the mix of sales by looking solely at the composite price for non-motivated sales, we find that home prices increased at slightly over half the rate of the RPX Composite price (Exhibit 2).

Moreover, the 5.5 percent year-on-year gain in non-motivated prices likely overstates the strength and momentum of home prices in November 2012, as home prices were unusually weak in November 2011. Typically, prices in non-motivated sales stabilize temporarily in October and November, before declining rapidly again in December. This pattern occurred in 2009, 2010 and 2012. In 2011, prices did not stabilize in October, but declined continuously through the end of the year (Exhibit 2). We expect the non-motivated composite to decline rapidly this December, according to the more typical pattern. As a result, we expect the year-on-year change in December to drop back down toward the gains we saw in September 2012, *when the composite non-motivated price was just 1.5 percent higher than it was a year earlier*. In other words, when we have the data to look at calendar year 2012, we expect the gains in non-motivated prices to be meaningfully weaker than the figures we can see now, with data ending in November.

Exhibit 1: 25-MSA Motivated Transaction Count and Share of Total Sales

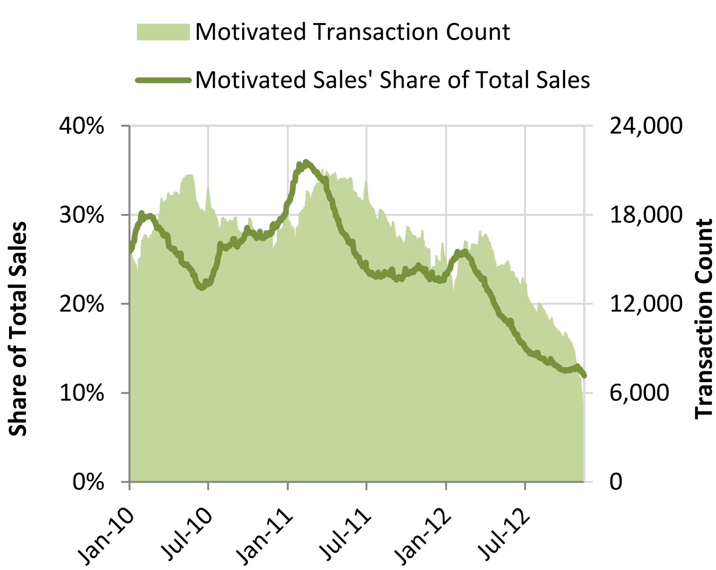
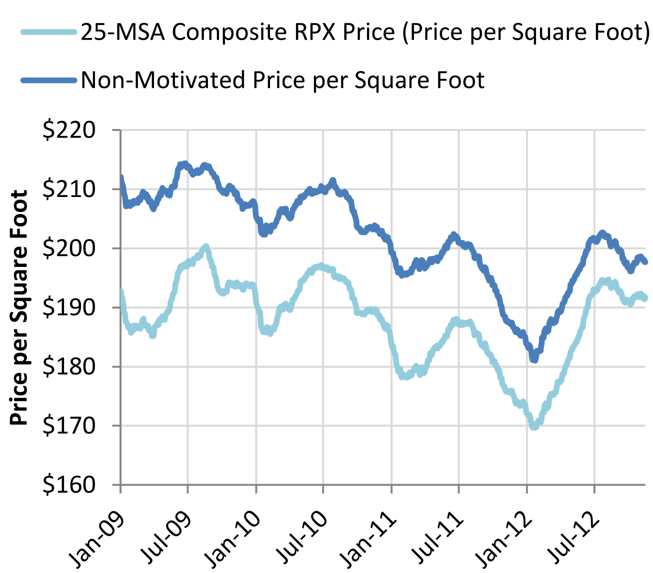


Exhibit 2: 25-MSA RPX Composite Price and 25-MSA Non-Motivated Price



Housing Demand Was Driven By Institutional Investors

An increasing share of sales activity has been driven by institutional investors rather than households. While the 25-metro-area RPX transaction count increased 7.6 percent year over year, monthly investor purchases increased 75 percent year over year (Exhibit 3). The bulk of these purchases occurred in a handful of markets hit particularly hard by the housing bust: Miami, Phoenix, Los Angeles, Las Vegas and Atlanta. Investor purchases increased from 7.8 percent of the total 25-MSA transaction count in November 2011 to 11.4 percent in November 2012.

Interestingly, essentially all the growth in institutional investor purchases occurred in non-motivated sales, rather than REO sales and foreclosure auctions (Exhibit 4). One possible explanation lies in the rapid increase in the prices of foreclosed homes during 2012 (Exhibit 5). The rapid increase in institutional purchases was driven by large money managers and private equity funds that have raised billions to build portfolios of rental properties. Perhaps the rapid increase in demand drove up prices of foreclosed homes to the point where investors concluded that the economics of the buy-to-rent strategy no longer worked, and so they sought out new sources for properties. One such source proved to be investors who purchased distressed properties earlier in the housing bust. “Trading” of properties between institutional investors increased 106 percent from November 2011 to November 2012 (Exhibit 6).

As the gains in home price metrics and home sales figures in 2012 were driven largely by shifts in the composition of sales and an increase in the trading of properties between investors, these gains could be reversed when investor demand wanes. Some might say we are in a new bubble.

Exhibit 3: Institutional Investor Purchases, 25-MSA Monthly Total

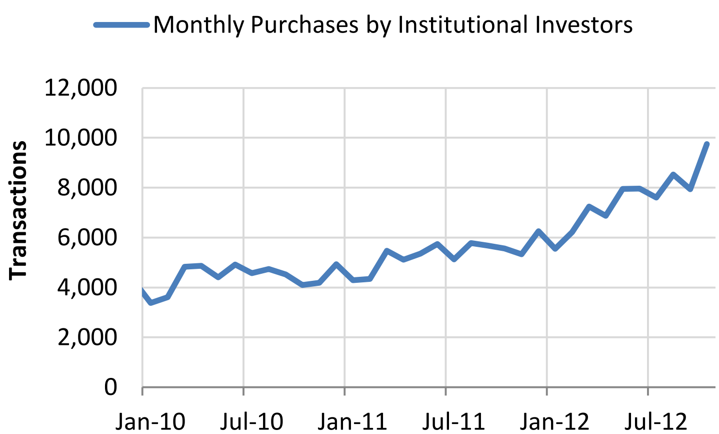


Exhibit 4: Institutional Investor Purchases in Motivated and Non-Motivated Sales, 25-MSA Monthly Total

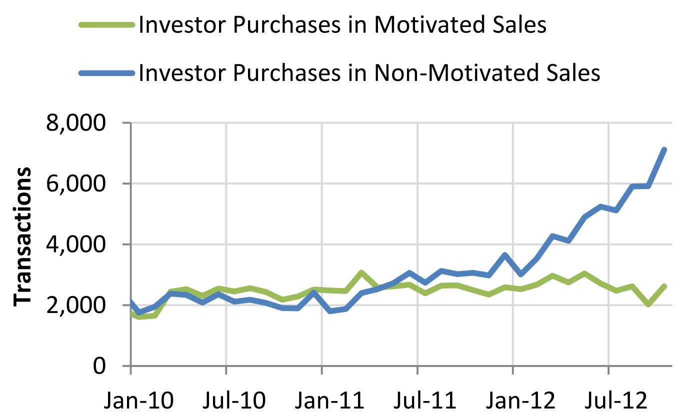


Exhibit 5: 25-MSA Motivated Price

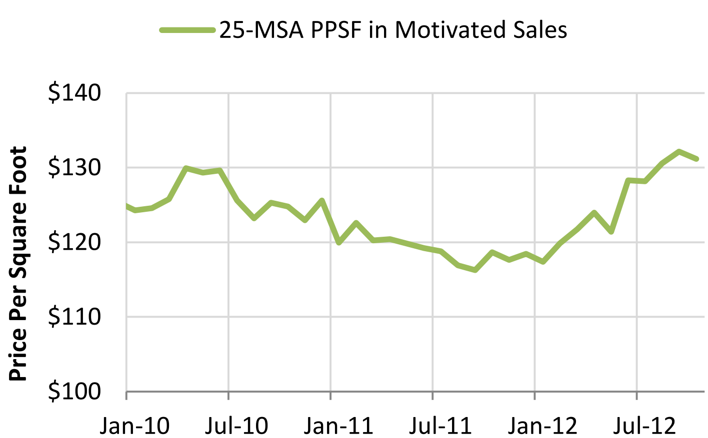
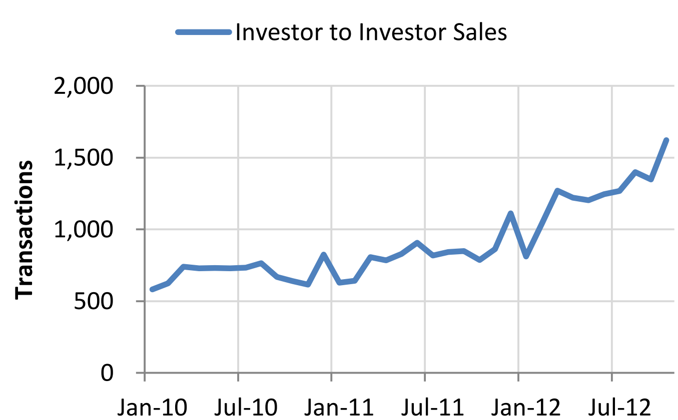


Exhibit 6: Institutional Investor Sales to Institutional Investors, 25-MSA Monthly Total



Outlook for Housing in 2013 and Beyond

Some commentators suggest that investor-driven home price appreciation could spur demand among housing consumers, which will in turn bring about a broad-based and sustainable recovery in the nation's housing markets. Maybe, but we are skeptical of this theory. Investors appear to be purchasing properties mostly from two sources: financial institutions selling REO and investors trading distressed properties purchased earlier in the housing crisis. They have not purchased significant volumes of homes from builders and households. Thus, it is hard to see a direct connection between the current increase in institutional demand and future gains in household demand, especially at a time when traditional buyers are faced with high down payment requirements and tight standards for mortgages.

We fear that an alternative scenario may be more likely in the near term, one in which housing price metrics rise and fall periodically but the secular price trend remains flat. After a period of frenetic purchasing activity on the part of institutional investors, prices for foreclosed homes and investment properties are bid up to the point where the economics of buy-to-rent strategies no longer work. As a result, investor demand for these assets declines. As there is still an abundance of delinquent mortgages and properties in foreclosure, REO inventories swell, and banks and their agents respond by lowering prices for such properties. Lower REO prices make the economics of buy-to-rent strategies attractive again, and institutional purchases of (once again) low-priced distressed homes increase. This causes another shift in the mix of sales toward low-priced homes, which pushes down broad-based housing price metrics. Eventually, investor demand will once again drive up prices for distressed homes to the point where such properties are no longer a good investment, which will once again reduce demand for distressed properties. Sales of non-distressed homes will increase as a share of total sales, and housing price metrics will rise again. And on and on, until consumer demand recovers and drives a real recovery in housing values.

About Radar Logic

Radar Logic Incorporated, a real estate data and analytics company, calculates and publishes the Radar Logic Daily™ Prices. The prices track housing values for major U.S. metropolitan areas and are the basis of the Residential Property Index™ (RPX™), a market that enables real estate to be traded as a liquid asset, via property derivatives marketed by major financial institutions.

RPX allows real estate and financial professionals to manage opportunity and risk, invest in real estate values without owning physical assets and effectively analyze markets using a consistent metric: price per square foot. Data in the 2012 RPX Year In Review reflect the 28-day aggregated value of Radar Logic Daily Prices.

The Daily Prices for each MSA are not adjusted for seasonal variations. In some cases, Daily Prices may vary based on reporting characteristics within individual MSAs. The 2012 RPX Year In Review provides insight and detailed analysis of Radar Logic's 25 MSAs and the Manhattan Condo market. This study is based on the premise that there is no national housing market; rather, each MSA, while having some economic influences in common, is influenced primarily by local conditions.

RPX Analytics & Research

Radar Logic offers specialized analytic services that allow real estate and financial professionals to view current and historical price per square foot and transaction count trends for all markets and sub-markets we track. MSAs can be segmented by location (zip code and county), property type (single family, multi-family and condo), property size, date range, and sale price. The database is derived from public-source records.

Our data provide a means for all entities associated with or affected by housing prices to maintain market data streams on a constant, unbiased and daily-updated basis.

For additional insight on this report or for inquiries about research or analytic products, please contact:

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