RPX

HOUSING ANALYTICS UPDATE

Release Date: July 29, 2009

There is a housing recovery, but will it last?

When we started the RPX, we noticed that, due to the daily frequency of our index, we were able to spot trends before other, more traditional, metrics for housing. This was especially true as the market turned from bullish to bearish. Recently, the same has been seen to be true as market trends have turned from bearish to bullish.

On April 3, 2009, Radar Logic reported that the year-over-year decline in home sales in January decreased from -36% in 2008 to -6% in 2009, which prompted Radar Logic CEO Michael Feder to note that “there appears to be a significant increase in demand given the reduction in prices evident in many markets”. On April 15, the National Association of Home Builders (NAHB) announced that builder confidence, as measured by the NAHB/Wells Fargo Housing Market Index (HMI), had its largest one-month increase since May 2003. In response, NAHB Chief Economist David Crowe said, “this is a very encouraging sign that we are at or near the bottom of the current housing depression.” On April 23, Radar Logic released its RPX Monthly Housing Market Report for February, which said that 13 of the 25 metropolitan areas covered by the report had posted their largest month-over-month increases for the month of February since 2006. On the same day, the National Association of Realtors announced that first-time buyers returned to the housing market in March. NAR Chief Economist Lawrence Yun observed that the housing market “appeared to be stabilizing with modest ups and downs”. A few days later, Standard & Poor’s released the S&P/Case-Shiller Home Price Indices (CSI) for February, and David Blitzer, Chairman of Standard & Poor’s Index Committees, remarked that “while the declined in residential real estate continued into February, we witnessed some deceleration in the rate of decline in some of the markets.”

In May, the indications of stability became stronger. On May 18, the NAHB announced that builder confidence continued to increase in April. In the RPX Monthly Housing Market Report for March, released May 21, Radar Logic pointed out that the RPX 25-MSA Composite had been virtually flat in February and March after falling almost continually throughout 2008. “While not a bottom, the stability in home prices we are seeing is certainly good news,” said Feder. On May 27, the Federal Housing Finance Agency (FHFA) announced that the pace of decline in its purchase-only home price index had declined considerably. FHFA Director James B. Lockhart said “Our latest data are consistent with growing evidence that housing market conditions may be stabilizing in some parts of the country.” On the same day, NAR announced that existing home sales rose in April with strong activity in lower price ranges. Despite these indications of housing market stability, Standard & Poor’s announced that its National Home Price Index continued to set record declines, and David Blitzer backed away from the optimism he expressed in April. “Based on the March data,” said Mr. Blitzer, “we see no evidence that that a recovery in home prices has begun.”

By early June, there were three months of stability in the RPX Composite and Michael Feder was ready to call a recovery in home prices. In a June 10 interview on Bloomberg TV, Feder said, “… we are now back at what would have been a logical inflated price for housing given natural forces … perhaps what we’ll see over the next several months is a real recovery.” By the release of Radar Logic’s monthly report on July 23, Feder was calling the bottom with more confidence: “At this point we are comfortable with the observation that RPX values in much of the country have bottomed, at least for now.”

Lately, several other market observers have echoed this sentiment. On July 16, the NAHB announced that builder confidence increased again in July, and David Crowe said, ”the market is bouncing around a bottom.” On July 23, NAR announced that existing home sales increased 3.6% in May, the third monthly increase in a row. Lawrence Yun said “This is another hopeful sign – if we can keep the volume of sales above the level of new inventory, prices could stabilize in many areas around the end of the year.” On July 28, Standard & Poor’s announced that the Case-Shiller composite indices had increased for the fourth consecutive month. “To put it in perspective, these are the first time we have seen broad increases in home prices in 34 months. This could be an indication that home price declines are finally stabilizing" said David Blitzer, in a reversal of his bearish outlook two months prior.

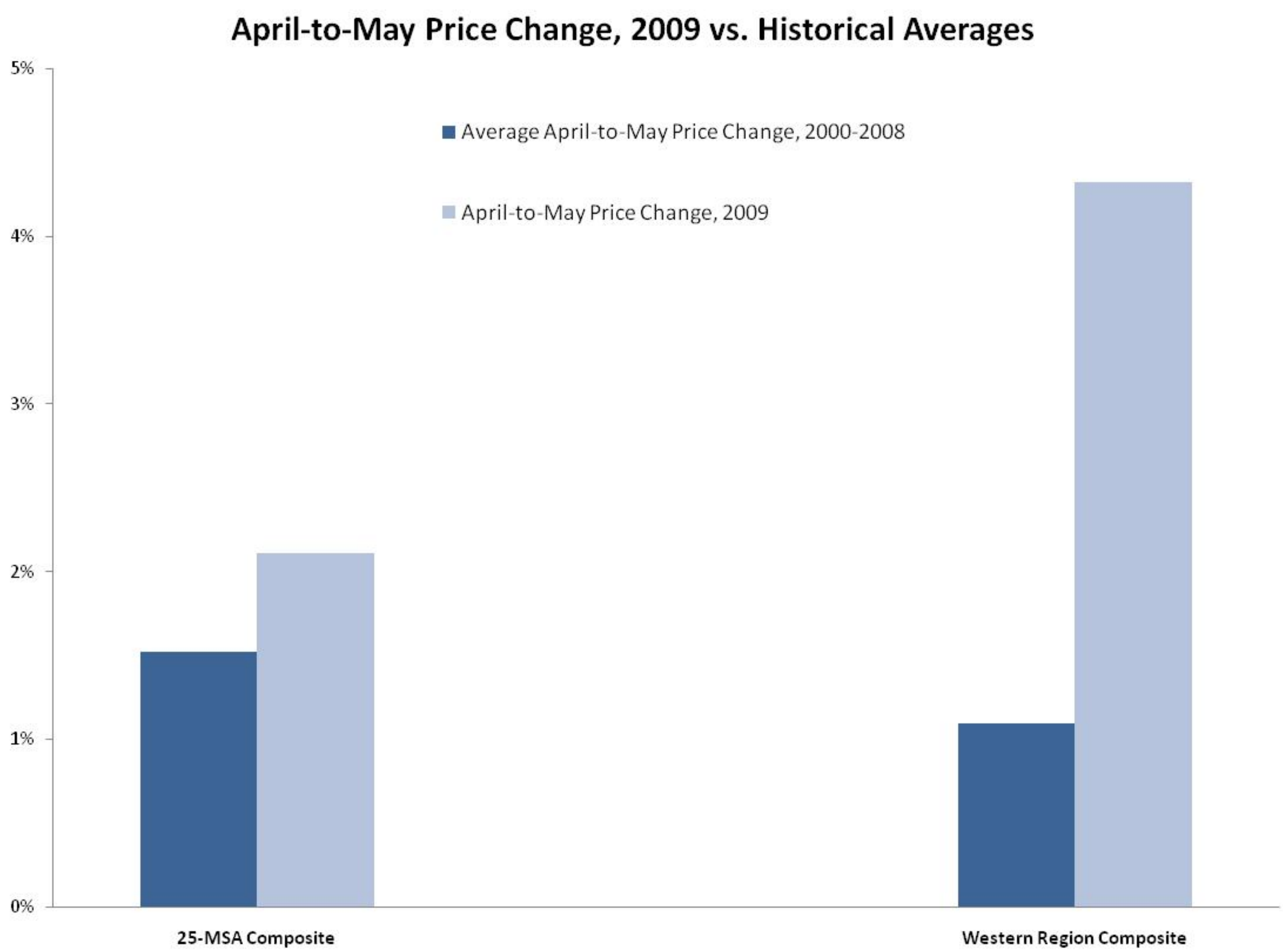
Super-Seasonal Strength in Prices

The most convincing evidence that home prices have entered a period of real recovery is not the fact that the RPX in many areas have increased, but the fact that they have increased by more than would have been expected given historical patterns.

In most markets, home sales and home prices are seasonal insofar as they show relative strength in spring and summer and relative weakness in autumn and winter. While the seasonal strength typically observable in spring and summer was largely absent in May 2008, in May 2009, seasonal strength had returned to 22 of the 25 MSAs tracked by Radar Logic, and prices in most of these MSAs increased more than would be expected given historical seasonal patterns. As shown in Exhibit 1, the increase in the Composite in May 2009 was larger the average gains during the month of May from 2000 to 2008.

The premium to the average price increase from April to May indicates that seasonality alone does not account for the strength in the Composite. In many markets, seasonal market forces are being augmented by a more lasting recovery in market fundamentals.

Exhibit 1



Data Pointing to Stability

As illustrated in Exhibit 2, housing starts have increased continually since the beginning of the year. In June, the unadjusted figure for housing starts was 9% above the figure for May and 83% above the figure for January. Although unadjusted starts are down 43% year-over-year, the month-over-month increase is consistent with historical trends and, as such, represents a return to normalcy and at least a temporary recovery in housing markets.

Furthermore, it is clear that housing starts correspond very well to movements in the RPX. As can be seen below, new home starts began to rise as prices in the RPX stabilized towards the end of January.

Exhibit 3, which depicts new-home sales, shows the same inflection point as the previous examples. In June, new residential sales showed an impressive 11% jump from the revised May rate of 346,000, providing evidence that recovery in new home sales is underway. This bodes well for housing as new home sales grew for the third month in a row.

Exhibit 2

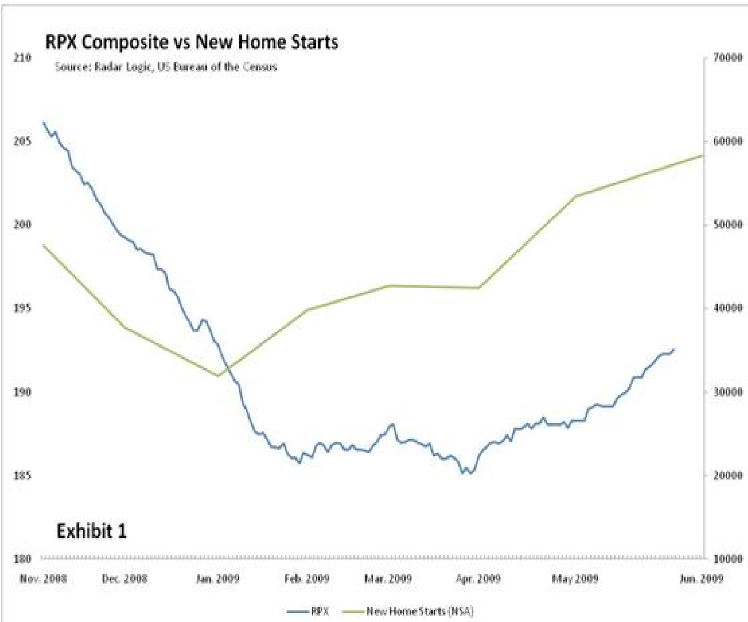
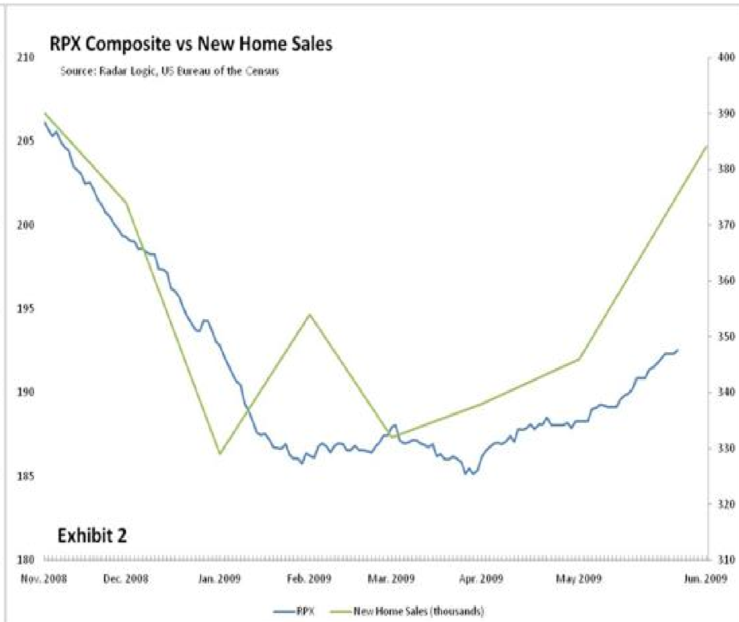


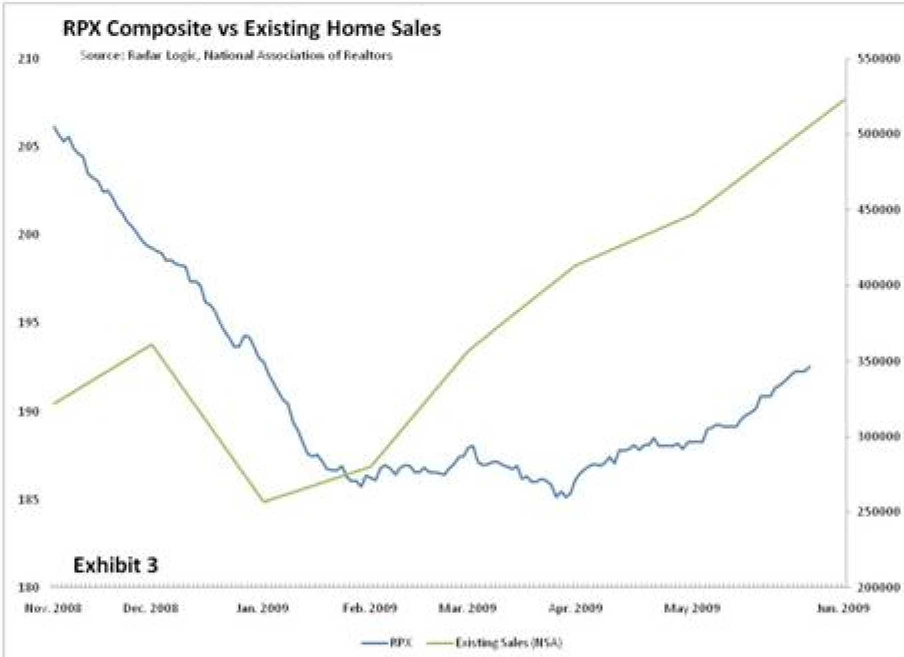
Exhibit 3



Existing-home sales, as published by the National Association of Realtors, show the same general trend towards housing recovery that is observed in the Census Bureau data for new-home sales and starts. In short, since the beginning of 2009, home prices and transactions have halted their freefall and returned to something resembling their pre-crisis dynamics.

As can be seen in Exhibit 4, existing-home sales and the RPX have shown an upward growth trend since the beginning of the year. While these trends may slow or even reverse themselves with the onset of the winter months, the uptick during the summer months is strong evidence of a return to seasonal norms and recovery.

Exhibit 4



Consumer sentiment has continued to track with the RPX since we first made the observation last month. The fact that this trend has strengthened over the past month means that consumers are feeling better about forces in the economy. Since residential property represents the single largest investment for the average consumer in America, home prices influence how consumers perceive their wealth. As the RPX tracks higher, consumer sentiment should follow suit as consumers feel that their wealth is being restored.

The increase of consumer sentiment alongside the RPX indicates that part of the reason consumer sentiment is increasing is that housing is stable. This may act as a self-perpetuating cycle.

The Upcoming Winter Downturn

To many analysts' surprise, growth in the housing sector is better than predicted and the current buying season has shown more strength than would be expected based on historical patterns. Furthermore, the trend has not abated, as is the historical course moving through mid-summer, suggesting that the growth trend is not entirely seasonal but in part is pent up demand that has been unleashed as many consumers believe that home prices have bottomed.

While houses may sell at a discount from their peak values for years to come, the return to normal seasonal patterns suggests that sustainable appreciation could return to the market soon. Attitudes have changed dramatically since last winter and the fear of many investors has turned to optimism. Moving forward, it will be interesting to track how long the current growth trend continues into the winter months as compared to previous years.

It will become more apparent between now and the next buying season whether one can attribute the current strength in home prices to a lasting recovery in housing markets rather than temporary seasonal factors. Typically, the housing market will start to soften moving into June as the initial influx of buyers decreases. As winter approaches, buyers tend to retreat until around February, when volume again picks up. Because of this phenomenon, it will be difficult to tell if the market has fully recovered until winter has passed.

A positive sign to look for is a winter home-price decline that is less severe than would be expected given past seasonal price patterns. This would indicate that consumers' confidence in the housing market is strengthening and that a strong upcoming buying season could be on the way.

Essentially, housing needs to be tracked on an ongoing basis because many of the signs of recovery are only visible in retrospect when using traditional housing metrics. As an indication of the daily "spot" value of residential property, the RPX provides a timely view of housing price trends and will be an early indicator of how the housing recovery progresses.

The next Radar Logic Monthly Housing Market Report will be published on August 20. Please visit www.radarlogic.com for prior reports.

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 Radar Logic reports reflect the 28-day aggregated value of Radar Logic Daily Prices. The price per square foot metric used significantly reduces the influence of property sizes on overall housing price trends, which can skew results.

The Daily Prices are not adjusted for seasonal variations. In some cases, Daily Prices may vary based on reporting characteristics within individual markets.

RPX Analytics & Research

Radar Logic offers specialized analytic services which 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 and neighborhoods 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 our neutral, public source records.

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

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

Radar Logic Incorporated
180 Varick Street, Suite 502
New York, NY 10014
212.965.0300
info@radarlogic.com

See MSA Disclosures at www.radarlogic.com for information about the data for each MSA.