



**University of St. Thomas**  
Minneapolis St. Paul  
Residential Real Estate Index

July 2015



UNIVERSITY  
of ST. THOMAS  
MINNESOTA

Real Estate

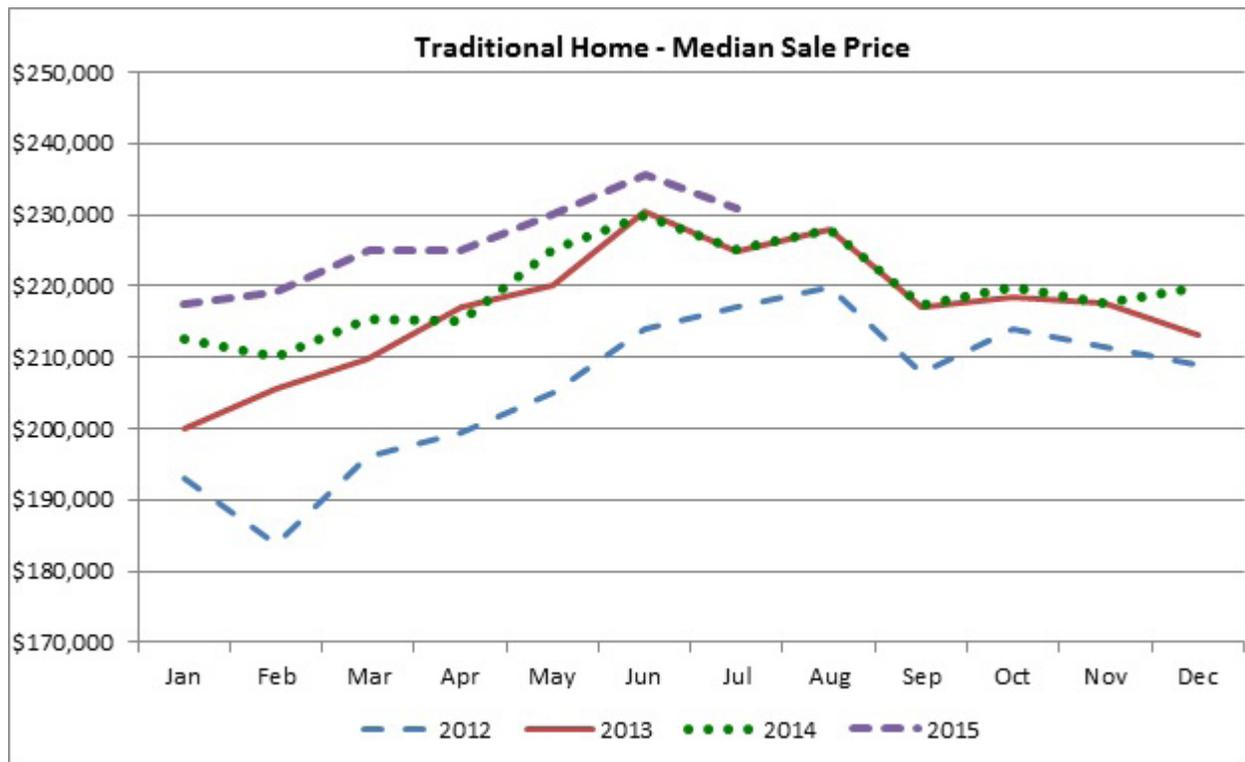
**UST** OPUS COLLEGE OF  
**BUSINESS**

## Welcome to the latest edition of the UST Minneapolis St. Paul Residential Real Estate Index.

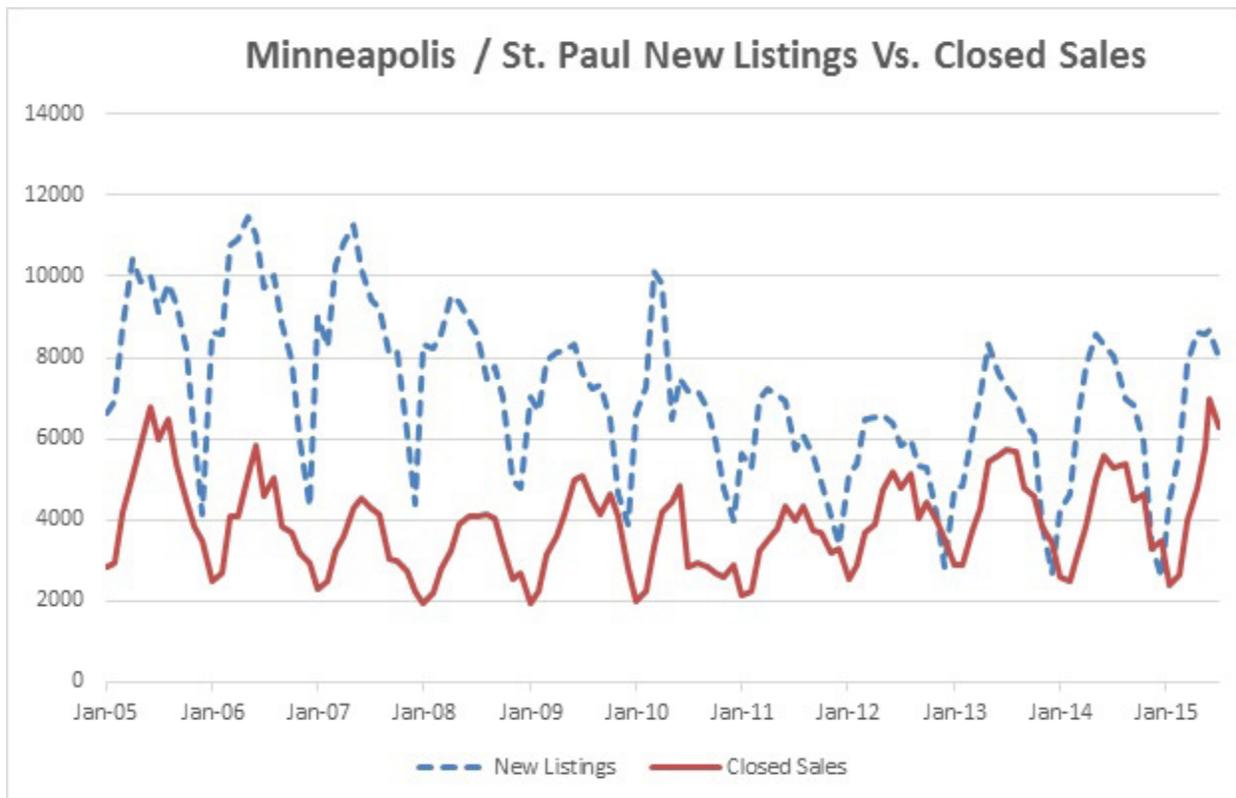
The University of St Thomas Residential Real Estate Index has been developed by the Shenehon Center for Real Estate at the University of St. Thomas Opus College of Business to correct the overstatement of housing price decline reported by the S&P Case-Shiller Price Index for the Minneapolis–St. Paul metropolitan area. Rather than a single index or price representative of all homes, the UST Residential Real Estate Index includes the price of homes in three sub-markets: traditional sales, short sales and foreclosure sales as well as a nine variable composite index for measuring market health for each category based on a three-month moving average.

### July 2015

In July the overall median sale price for the Twin Cities housing market increased 4.7% compared with July 2014. As you can see in the chart below the median sale price of a traditional home sale has increased 2.7% compared to the same month a year ago. The chart also illustrates that so far in 2015 the traditional median sale price year to year to increase has maintained a relatively stable 2.5% - 3.5% increase over 2014 levels. The median sale price of all homes in July was \$225,000 and the median price of a traditional home sale was \$231,000. We continue to expect a 4% to 6% overall median sale price increase for 2015, however our outlook could change to the extent that interest rates increase this fall.

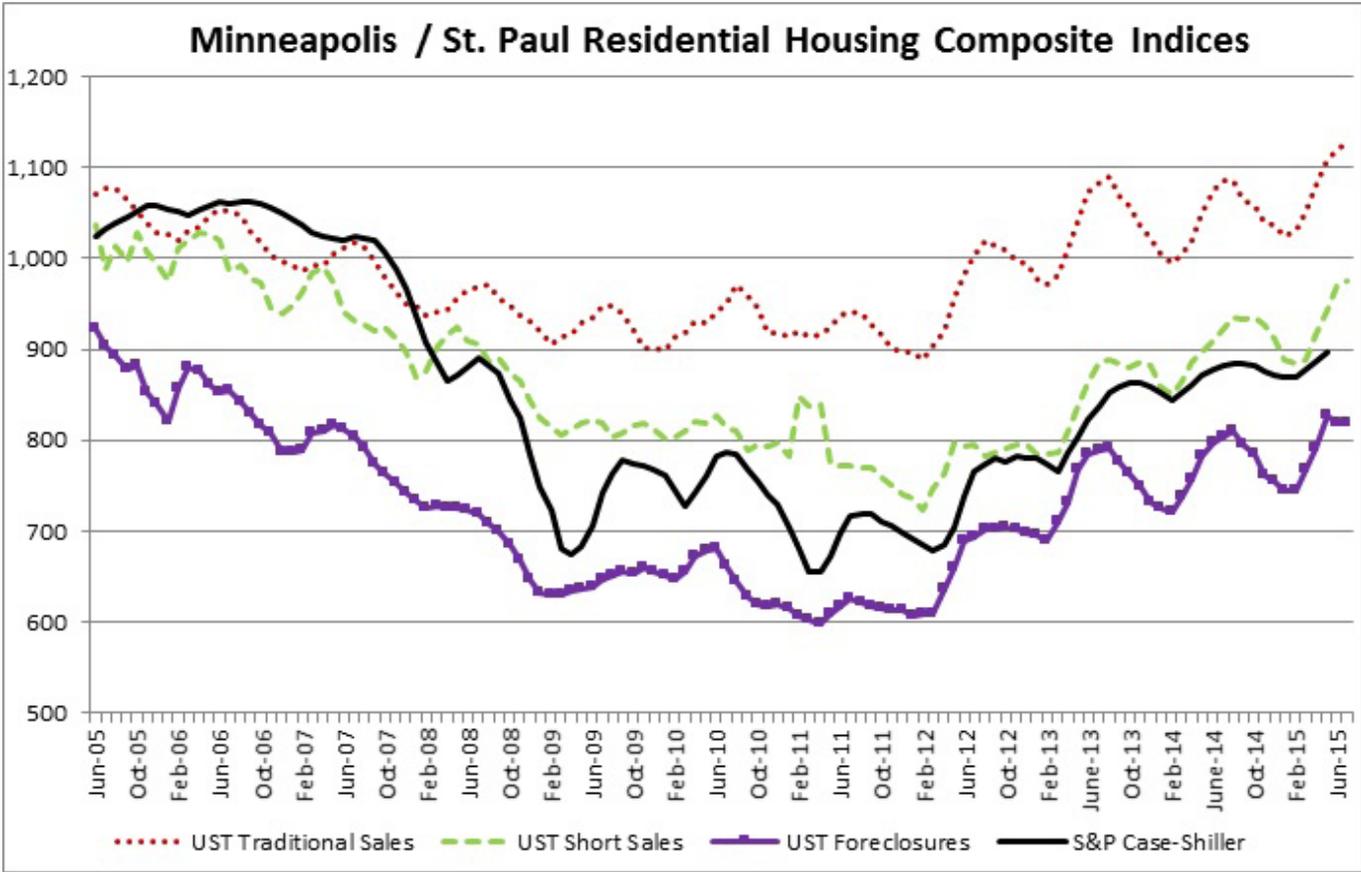


The number of closed sales in July was 6301 down slightly from the 6980 recorded in June yet a 19.2% increase over July 2014 closed sales. The number of pending sales at the end of July 2015 was 5736 a 12.5% increase over July 2014. The continued high level of pending sales is an indicator that the number of closed sales should continue to be strong through the next few months. The number of new listings at 7965 was down 8.3% from June and was essentially the same as the level recorded in July 2014. The inventory of homes for sale at 16,998 continues to be historically low. The chart below illustrates the number of new listings (homes that came into the market) vs. the number of closed sales (homes that went off the market). You will see that before the market crash in 2005 – 2007 there were many more new listings coming into the market than there were closed sales leaving the market resulting in higher numbers of homes available for sale. In 2015 the number of closed sales is rebounding to pre-crash levels yet the number of new listings has not recovered to pre-crash levels. In order for inventory levels to recover to more normal levels the number of new listings will need to increase to at least 10,000 per month in the peak selling months. Until that happens the low levels of homes available for sale will persist. In the meantime the low number of homes for sale and the high volume of closed sales are being reflected in a higher number of multiple offers and sale prices at more than the original asking price. Good news for sellers, bad news for buyers looking for a deal.



## Homes For Sale – Supply and Demand

We have also examined the median sale price of the homes that actually sold in July (Demand) and compared that with the prices of the homes that were for sale in July (Supply). The chart below shows that in comparison during July 40% of the homes that were sold were less than \$200,000 yet only 27% of the homes available for sale fall into that range. That means that in comparison as a percentage there were more buyers wanting to purchase a home under \$200,000 than there were homes available for sale in that price range. That puts upward pressure on the sale price on homes for sale in that price range. In the \$200,000 to \$400,000 price range there is a similar situation. 47% of the homes that were sold fell into that price range yet only 42% of the homes for sale fell into that price range. For homes in the \$400,000 and above price range there were many more homes available for prospective buyers to choose from. The conclusion is that there are more buyers chasing a relatively smaller percentage of low to moderately priced homes available for sale and that is another reason why we are seeing a very active market for moderately priced homes in the Twin Cities market.



## The UST Indexes

**July set another high watermark for the UST Traditional Sale Composite Index.** At a level of 1128 the index is again at the highest level that has been observed since it was created in 2005. It has increased 4% from the level seen in July 2014 when it was recorded at 1085. This represents an increase of .7% from June 2015 when the index was 1120. Even though the overall median sale price and number of closed sales declined slightly in July our index is based on a rolling 3 month average of the last three months and the small monthly increase is based on May – July 2015 data. We expect increases in the index to moderate as summer moves into fall, however the continued increase of the Traditional Sale Composite Index is an indicator of expected ongoing improvement in the health and resurgence of the Twin Cities housing market.

The UST Residential Real Estate Short Sale Composite Market Health Index was 974 in July, up .3% from the 971 recorded in June. The index has increased 5.8% compared to one year ago. The Short Sale Composite will continue to play a less significant role in our analysis since there were only 123 short sales in July that represent 2.0% of total sales.

The foreclosure market's health as represented by the UST Residential Real Estate Foreclosure Composite Index essentially unchanged, moving from 817 in June to 819 in July. The number of foreclosures represented 5.4% of the total sales recorded in July.

<b>UST Residential Real Estate Indexes</b>	<b>July 2014</b>	<b>June 2015</b>	<b>July 2015</b>	<b>Year to Year Change</b>
Traditional Sale Index	1085	1120	1128	3.96%
Short Sale Index	921	971	974	5.75%

July 2014 UST Index Data					
	July 2014	June 2015	July 2015	Monthly % Change	Annual % Change
<b>1. Median Sale Price</b>					
Traditional	\$225,000	\$235,500	\$231,000	-1.91%	2.67%
Short Sale	\$155,000	\$171,500	\$154,000	-10.20%	-0.65%
Foreclosed	\$141,875	\$137,591	\$140,000	1.75%	-1.32%
<b>2. Closed Sales</b>	5,286	6,980	6,301	-9.73%	19.20%
Traditional	4,628	6,438	5,834	-9.38%	26.06%
Short Sale	163	139	123	-11.51%	-24.54%
Foreclosed	493	396	340	-14.14%	-31.03%
<b>3. % Distressed Sales</b>	12.41%	7.66%	7.35%	-4.13%	-40.79%
<b>4. Days on Market</b>	68	66	63	-4.55%	-7.35%
<b>5. Month's Supply</b>	4.5	3.7	3.7	0.00%	-17.78%
<b>6. New Listings</b>	8,015	8,682	7,965	-8.26%	-0.62%
<b>7. Pending Sales</b>	5,096	6,241	5,736	-8.09%	12.56%
<b>8. Homes for Sale</b>	18,643	16,718	16,998	1.67%	-8.82%
<b>9. % of Original Price</b>	96.80%	98.60%	98.50%	-0.10%	1.76%

## Real Estate at the Opus College of Business

### Shenehon Center for Real Estate [www.StThomas.edu/Shenehon](http://www.StThomas.edu/Shenehon)

The Shenehon Center for Real Estate serves as a resource to the commercial, industrial, residential and corporate segments of the real estate industry and the community to advance the public interest in real estate issues. For more than 15 years, the center has supported improvement in real estate leadership and management by creating and developing real estate leadership and management programs for undergraduate and graduate degree programs and professional development, providing a neutral forum to convene real estate professionals to share best practices, supporting and working with local real estate industry organizations, conducting real estate research, and developing mechanisms to transfer leading edge business practices to the real estate industry.

### Master of Science Degree in Real Estate [www.StThomas.edu/RealEstate](http://www.StThomas.edu/RealEstate)

The Master of Science Degree in Real Estate is one of seven graduate business degree programs offered through the Opus College of Business. This part-time, evening program provides students with a comprehensive understanding of real estate financial and quantitative decision making processes, and advanced issues in valuation and land economics, knowledge of critical legal issues, and techniques for market and feasibility studies and real estate investment analysis. Students in the UST MSRE program come from a variety of different backgrounds including appraisal, brokerage, property management, finance, development, engineering, design, facilities management and corporate real estate. The program produces alumni with strong leadership abilities, aptitude for sound decision making, focus on ethics and social responsibility, and a solid network of real estate professionals.

### Bachelor of Science Degree in Real Estate [www.StThomas.edu/business/BSRealEstate](http://www.StThomas.edu/business/BSRealEstate)

The Bachelor of Science Degree in Real Estate is one of 13 undergraduate concentration areas in the Opus College of Business. This four-year degree program provides students with a background in general business and real estate theory and practice. Students study the many factors involved in property assessment and sales, how they change and how these changes affect real estate and individuals. Recent graduates hold positions in the government, nonprofit, construction and private business sectors, including leadership positions in real estate brokerage, investment management, property management, appraisal, construction management, land-use planning and land development.

# About the Index

The University of St Thomas Residential Real Estate Index has been developed by the Shenehon Center for Real Estate at the University of St. Thomas Opus College of Business to correct the overstatement of housing price decline reported by the S&P Case-Shiller Price Index for the Minneapolis–St. Paul metropolitan area. Rather than a single index or price representative of all homes, the UST Residential Real Estate Index includes the price of homes in three sub-markets: traditional sales, short sales and foreclosure sales as well as a nine variable composite index for measuring market health for each category based on a three-month moving average.

One of the problems with the S&P Case-Shiller Price Index is that the matched pairs selected to develop the index do not make a distinction between a traditional, normal market sale and a distressed (short or foreclosure) sale. A property purchased at the peak of the market in 2006 and then foreclosed in 2010 and subsequently sold by the lender is considered by the Case-Shiller Index as a “normal, arms-length,” transaction. The UST Residential Real Estate Index does not consider the transaction to have occurred at “arms-length” because the seller (the bank as the lender) is not a typically motivated seller. In many cases foreclosed properties are sold at distressed, discount prices because the lender wishes to recover as much of their investment as possible and get the property off their books. Further foreclosed homes have often fallen into disrepair and require a significant amount of work to become habitable.

Traditional sales of homes include those properties not subject to the threat of foreclosure or to a sales price which is less than the balance of the outstanding mortgage. Short sales are sales of homes sold for a price less than the outstanding mortgage balance and relieve the seller of the burden of continued payment for a home worth less than the outstanding debt. A short sale also eliminates the threat of future foreclosure. Foreclosure sales are sales of those properties whose owners have defaulted on their mortgage payment obligations and have lost their home to their lender. Title is held by the lender and the home is vacant.

Combining foreclosure and short sales of real estate with traditional property sales skews any single composite price index, such as the S&P Case-Shiller Index, and creates a downward bias when foreclosure sales and short sales represent a significant part of total housing sales. In a normal housing market less than 5% of properties sold would be classified as distressed. During last few years foreclosure and short sales have comprised between 35-60% of all housing sales. This unusually high disproportionality of distressed sales causes the reported decline in a single, overall housing price index to be overstated.

Analysis of these three submarkets for MSP Metro Area since 2005 has revealed that the S&P Case-Shiller Price Index has significantly overstated the price decline for the traditional housing market while understating the loss of value for homes subject to a foreclosure sale. Since the first quarter of 2005 Case-Shiller has reported an overall decline in market price of 12.6%. Our analysis of traditional housing sales for the same period, with a three-month moving average, reveals a price increase of 5.8%. Short sales and foreclosure sales had price decreases of 4.7% and 8.8% respectively. The Case-Shiller Index also uses a three-month moving average.

## About the Author

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Herb Tousley is the director of the Shenehon Center for Real Estate and Master of Science degree in Real Estate at the University of St. Thomas Opus College of Business. His research specialties include housing studies, affordable housing and commercial market analysis. Tousley received a Bachelor of Science degree in business from Colorado State University and an M.B.A. from the University of St. Thomas.

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# Why Another Real Estate Index?

*How does the UST Residential Real Estate Index differ from the S&P Case-Shiller Price Index for the Twin Cities market?*

The Case-Shiller Index is an aggregate price index only and is based on sales data from matched pairs of residential properties. Matched pair analysis compares the recent sale of a property with a previous sale at some point in the past. The difference in sale prices of the property over the time interval between sales is used to calculate the price change and the Case-Shiller Index for a particular month. As many matched pairs property sales as possible for the Twin Cities market are identified and used to calculate each month's index value.

The University of St Thomas Residential Real Estate Index for Minneapolis St. Paul metropolitan area has been developed by the Shenehon Center for Real Estate to provide a broad measure of the health and strength of the local residential housing market covering the 13 county Twin Cities metro area. The health of a housing market is more than just the current reported price for housing. Therefore the UST index incorporates other variables that together provide a better picture of the residential real estate market's health; it takes into account supply and demand factors that are indicators of market velocity and vitality, as well as their effect on housing prices.

The index is comprised of nine different elements that together reflect the residential real estate market health and include the following:

1. Selling prices for traditional, short and foreclosure sales;
2. Number of closed sales;
3. Proportion of traditional, short and foreclosed sales;
4. Time on the market;
5. Months' supply of homes for sale;
6. Number of pending sales;
7. Number of new listings;
8. Number of homes for sale; and
9. Sale price as a percentage of the asking price.

These factors are synthesized and used to calculate a numerical index reflecting overall health of the Twin Cities real estate housing market each month. Another element of the index is using a three month moving average for each of the variables. The use of a smoothing average eliminates many irregularities and distortions that can occur on a month to month basis. The UST Residential Real Estate Index reports a composite value for the total market—after accounting for distressed sales—as well as individual indices for traditional, short and foreclosed sales.

The baseline for the index is the three-month period January through March of 2005, which was assigned a value of 1000. The January through March 2005 period was selected because that was near the apex of the residential real estate housing market. Each month's index can be compared to the previous month, year or market peak to understand the relative strength, direction and momentum of the Twin Cities housing market.

The raw data we use in our research originates from the Northstar MLS in co-operation with the Minneapolis Area Association of Realtors.