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.

May 2015

A Look Behind the Numbers

The main story in May is a significant increase in the number of traditional (non-distressed) home sales and a continuation of the historically low number of homes available for sale in the Twin Cities market. In May 2015 the number of traditional sales was 5264 outpacing May 2014 by 25%. The number of homes for sale in May was16,282, of which 14,763 were non-distressed. Normally there are 20,000 – 25,000 homes for sale in any given month in the Twin Cities market. The large increase in the number of sales and the relatively low number of homes for sale has created a seller’s market with instances of multiple offers and homes selling for more than asking price becoming more common.

What about the low number of homes for sale, why is this happening? There are many home owners who are considering selling now that values have recovered over the last 3 years. The question then is, what they do after they have sold their home. They have now turned from sellers into buyers in a market that offers them limited choices for their replacement home and the fact that obtaining a new mortgage is still relatively difficult. The other reason is that although the number of homeowners that are “underwater” has decreased significantly there are still a considerable number of homeowners that are “near negative equity”. That means that even though they are not underwater they have very little equity and when they sell their home they do not have enough equity to buy a new home. These factors along with more restrictive credit standards and little to no wage growth in the last several years are keeping many potential sellers on the sidelines.

In May the median sale price for the Twin Cities housing market overall increased 6.4% compared with last May 2014. As you can see in the chart below the median sale price of a traditional sale has been running about 2% to 3% higher than in the same month a year ago. That is an improvement over what happened between 2013 and 2014 when there was very little increase in the median sale price of a traditional home compared to the previous year. Short sales and foreclosures saw larger annual increases in median sale prices, 7.9% and 4.4% respectively but they have had a limited impact on the overall market median price increase since together they account for less than 12% of the total.
Originally we had been expecting an overall annual median sale price increase in 2015 of 4% to 6%. However, if this trend of strong sales numbers and a persistently low inventory of homes for sale continues through the summer and into the early fall we expect to see higher than expected increases in median sale prices.

**The Price Distribution of Homes Sold – Then and Now**

As we have emerged from the great recession we have noticed a difference in the number of homes that were sold at different price levels. We compared May 2012 to May 2015 and found some interesting results. As you can see in the chart below in May 2012 40% of the sales were less than $150,000 compared to May 2015 when less than 15% of the sales were less than $150,000. This is a reflection of the high number of foreclosures, short sales that were occurring at the time as well as the general decline in the value of all homes during the crash. Moving to 2015 as we are recovering from the recession, the economy is beginning to improve, and home values are increasing. You can see that the proportion of higher prices home sales is increasing. In May 2015 the number of home sales over $450,000 is nearly double what it was in May 2012. This is a trend that is expected to continue although the differences will not be as stark as the housing market continues to stabilize over time.
The UST Traditional Sale Composite Index in May at 1109 is the highest level that has been observed since the index was created in 2005. It has increased 5.6% from the level seen in May 2014 when it was recorded at 1050. This represents an increase of 2.8% from April when the index was 1079. This monthly increase is mainly the result of both a relatively low number of homes available for sale and a significant increase in number of closed sales in May. The continued increase of the Traditional Sale Composite Index is an indicator of the 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 943 in May, up 2.8% from the 917 recorded in April. The index has increased 5.1% compared to one year ago. Look for the Short Sale Composite to play a less significant role in our analysis since there were only 141 short sales in October that represent 3.1% of total sales.

The foreclosure market’s health as represented by the UST Residential Real Estate Foreclosure Composite Index decreased 5.6%, moving from 791 in April to 826 in May. The number of foreclosures represented 8.6% of the total sales recorded in October.
## May 2015 UST Index Data

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</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>$225,000</td>
<td>$225,000</td>
<td>$229,900</td>
<td>2.18%</td>
<td>2.18%</td>
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<tr>
<td>Short Sale</td>
<td>$149,250</td>
<td>$153,000</td>
<td>$161,000</td>
<td>5.23%</td>
<td>7.87%</td>
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<tr>
<td>Foreclosed</td>
<td>$144,000</td>
<td>$140,000</td>
<td>$150,100</td>
<td>7.21%</td>
<td>4.24%</td>
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<tr>
<td>2. Closed Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Traditional</td>
<td>4,801</td>
<td>5,364</td>
<td>4,462</td>
<td>-16.82%</td>
<td>-7.06%</td>
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<tr>
<td>Short Sale</td>
<td>194</td>
<td>141</td>
<td>141</td>
<td>0.00%</td>
<td>-27.32%</td>
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<tr>
<td>Foreclosed</td>
<td>600</td>
<td>446</td>
<td>386</td>
<td>-13.45%</td>
<td>-35.67%</td>
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<tr>
<td>3. % Distressed Sales</td>
<td>16.54%</td>
<td>10.94%</td>
<td>11.81%</td>
<td>7.93%</td>
<td>-28.58%</td>
</tr>
<tr>
<td>4. Days on Market</td>
<td>80</td>
<td>85</td>
<td>76</td>
<td>-10.59%</td>
<td>-5.00%</td>
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<tr>
<td>5. Month's Supply</td>
<td>4.1</td>
<td>3.6</td>
<td>3.7</td>
<td>2.78%</td>
<td>-9.76%</td>
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<tr>
<td>6. New Listings</td>
<td>8,573</td>
<td>8,614</td>
<td>8,593</td>
<td>-0.24%</td>
<td>0.23%</td>
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<tr>
<td>7. Pending Sales</td>
<td>5,254</td>
<td>6,267</td>
<td>6,224</td>
<td>-0.69%</td>
<td>18.46%</td>
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<tr>
<td>8. Homes for Sale</td>
<td>16,513</td>
<td>15,638</td>
<td>16,282</td>
<td>4.12%</td>
<td>-1.40%</td>
</tr>
<tr>
<td>9. % of Original Price</td>
<td>96.80%</td>
<td>98.10%</td>
<td>98.50%</td>
<td>0.41%</td>
<td>1.76%</td>
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</tbody>
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### 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.
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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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Production Assistant: Gauthier Mubwa, University of St. Thomas MBA 15

May 2015
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.