

THE WALL STREET JOURNAL

WSJ.com

DECEMBER 6, 2011, 1:19 PM ET

Why Home Prices Are (and Aren't) Stabilizing

Home prices are falling again, but some analysts see a silver lining because the prices of homes that aren't selling out of foreclosure have been holding steady.

[CoreLogic](#) reported that home prices in October declined by 1.3% from September and by 3.9% from one year ago. A separate index released Monday by [LPS Applied Analytics](#) showed that home prices in September had dropped by 1.2% from August.

"Many housing statistics are basically moving sideways," said Mark Fleming, chief economist at CoreLogic.

Still, the CoreLogic index shows an important emerging trend where home prices are stabilizing after excluding distressed sales.

What's the difference between distressed sales and non-distressed sales?

Unlike traditional owners, banks are often faster to cut prices in order to unload properties quickly—or what are called "distressed" sales. The upshot is that, the more homes being sold by lenders in any given month the faster prices tend to fall.

This was clear throughout the initial years of the housing bust. Prices declined most sharply in 2008 as banks dumped foreclosed properties at fire-sale prices. Owner-occupants are less likely to list their homes for sale in the winter months, too, which means that each winter there are also drops in prices because distressed sales account for a growing share of sales.

Are prices of distressed homes falling at the same rate as non-distressed homes?

That's been the case up until recently. While total home prices were down by 3.9% from one year ago, prices were down by just 0.5% from one year ago when excluding distressed sales. In September, total prices were down by 3.8% from one year ago, but non-distressed prices were down by 2.1%.

This shows that while price declines are resuming, they are not yet falling from one-year ago for non-distressed homes. In fact, during the first nine months of 2011, prices of non-distressed homes remained relatively stable, with year-over-year declines between 2% and 3%.



Getty Images

Analysts at Barclays Capital called this “the most important trend in the housing industry right now,” in a report published on Monday.

Why would any stabilization of non-distressed prices matter?

If it's true that prices of non-distressed homes are stabilizing, even as distressed homes continue to fall in price, it would mean that a distressed home is “increasingly being seen as a poor substitute for a non-distressed home,” writes Stephen Kim, the Barclays housing analyst. He says it's possible that the “bifurcation between distressed and non-distressed homes will only widen with the passage of time.”

Won't the overhang of foreclosures put pressure on non-distressed prices anyway?

That's all too possible. There are more than two million loans in some stage of foreclosure, and it may be too early to argue that those won't in some way impact the sales prices of non-distressed homes. For one, homes that sell out of foreclosure at significantly lower prices could be used by appraisers as “comparable” sales that may make banks less willing to lend at an agreed sales price for a non-distressed home.

In certain markets where many homes are selling out of foreclosure, it's hard to simply set aside distressed homes. “You can't deny the fact that if half of homes that sold in San Diego in a given year were distressed, that is the trend,” said Kyle Lundstedt, managing director at LPS.

What could happen if this trend holds up, with distressed prices falling and non-distressed prices staying flat?

It could stabilize something else: home-buyer confidence. “There is nothing that strikes fear in a homeowner's heart than to hear that his home value has declined,” writes Mr. Kim of Barclays. “But if it was home price trends that got us into this funk, it stands to reason that a recovery in sentiment will be similarly ushered in once price declines have abated—which is precisely what the CoreLogic price data shows us.”

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com