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Shadow Inventory Falls, Expected to Continue

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Standard & Poor's estimates that it would take nearly four years — or 47 months — for the housing market to work through its shadow inventory at the current rate. While that number is still high, it marks an improvement over S&P's first quarter report that had estimated 52 months.

Shadow inventory represents homes that are in the foreclosure system but haven't hit the market yet. S&P defines shadow inventory as foreclosure and REO properties in 90-day delinquency or worse.

"In conjunction with stable liquidation rates, we believe these are positive signs that the amount of time it will take to clear this 'shadow inventory' should continue to decline over the next year," S&P analysts said.

Delays from mortgage servicers in processing foreclosures likely will cause more than 1 million foreclosures to be postponed until next year, RealtyTrac recently reported.

As such, "the shadow inventory will continue to jeopardize the housing market's recovery until servicers are able to improve liquidation times," S&P said. "However, if and when that happens, an influx of homes will likely enter the market, increasing supply and driving prices down further."

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Shadow inventories are largest in New York, where S&P estimates it will take 144 months — or 12 years — to work through foreclosure properties at the current rate. That is down slightly from 146 months in the first quarter.

THESE SHOULD BE OUR BUYERS AND WILL IMPACT DEMAND!

Source: "Standard & Poor's: Shadow Inventory Levels Begin to Improve," HousingWire (Aug. 17, 2011)

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Foreclosures Reach Lowest Level Since 2007