

The 5 Most Ominous Real Estate Markets in the U.S.

By [Carla Fried](#) | Nov 29, 2010

[moneywatch.com](#) / [The Economy](#) / [The Daily Money](#)

If you're trying to get a handle on your [local housing market](#), the official tallies of homes sold and those for sale now only tell part of the story. Working off of the iceberg theory of market analysis — it's not just what's easily visible that you need to worry about — it's the **"shadow inventory"** of distressed homes that you need to pay attention to as well.

Shadow inventory is an estimate of homes that aren't yet in the official sales pipeline, but soon will be. It includes homes that are in foreclosure, owned by banks but not yet on the market, and those whose owners are at least 90 days behind on their mortgage payments. According to a new study from real estate data firm CoreLogic, as of August, the 2.1 million distressed homes in the U.S. represents an [eight-month supply of shadow inventory](#) of homes. That's up from a five-months supply a year earlier.

Add the eight-month shadow inventory to the 15-month supply of homes that are officially on the market, and we've got ourselves close to a two-year backlog of supply. A year ago we were at "just" 17 months. CoreLogic says six or seven months is what we would expect in more normal times. So by that measure, we're close to four times worse than normal right now.

The Most Ominous Housing Markets

In its analysis, CoreLogic took a look at a subset of the shadow inventory, and calculated which metro regions have the highest backlog of homes in which the owner was at least 90 days late on their mortgage. While regions such as Las Vegas and Phoenix lead the way in terms of the raw number of distressed homes, the relatively strong sales pace in those markets means they don't have the most ominous *months-supply* of distressed homes. The backlog is worst in the following areas according to CoreLogic (CBSA stands for "core-based statistical area" and refers to a Census Bureau designation of regions):

CBSA	Months' Supply Distressed Homes
Miami-Miami Beach-Kendall, FL	33.5
Nassau-Suffolk, NY	30.4
Chicago-Joliet-Naperville, IL	30.2
Atlanta-Sandy Springs-Marietta, GA	29.5
Indianapolis-Carmel, IN	27.5

On a state level the most severe backlogs are in:

- **Maryland:** 24.4-month supply of distressed homes.
- **New Jersey:** 24.1 months
- **Illinois:** 23 months
- **Florida:** 20.8 months
- **Georgia:** 19.5 months
- **New York:** 17.8 months

Alaska and Texas: No Shadows Here

True to the maxim that all real estate is local, there are indeed plenty of areas feeling very little housing distress. With just a 2.3 month supply of distressed homes, Alaska takes home the bucking-the-national trend award, followed closely by Texas at 5.5 months, Montana at 5.7 months, and Tennessee at 6.0 months. It's no coincidence that none of those states participated in the housing bubble.

Among large metro areas, the regions with the lowest month's supply of distressed homes is practically a Texas-only affair:

- **Austin, Texas: 4.2 months**
- **San Antonio, Texas:** 4.7 months
- **Fort Worth, Texas:** 6.3 months
- **Pittsburgh, Pa:** 6.6 months
- **Dallas, Texas:** 6.7 months

Distress Management

Add in the impact of the [slow-down in the foreclosure process](#) as the documentation fiasco continues to be investigated, and it's not likely the shadow inventory problem — and its impact on home prices — will soon fade, says CoreLogic's chief economist Mark Fleming:

"The weak demand for housing is significantly increasing the risk of further price declines in the housing market," Fleming says. "This is being exacerbated by a significant and growing shadow inventory that is likely to persist for some time due to the highly extended time-to-liquidation that servicers are currently experiencing."

If you're thinking of buying in an area with a big backlog of shadow inventory, working with a reputable agent with a clear sense of the market is especially important. What you pay today needs to reflect the fact that at least in the short-term, you could see prices continue to slide. You could always wait a little longer, but trying to time the bottom is never an easy feat — in housing or the stock market — and there's no guarantee that when prices bottom, mortgage rates will still be at these historic lows.

As for potential sellers: well, there's little good news here. If you need to sell within the next year or so, it's unlikely prices are going to be higher in areas with a high shadow inventory. Your best move is to embrace reality and [price your home to sell](#) as fast as possible.

Courtesy of JB Goodwin