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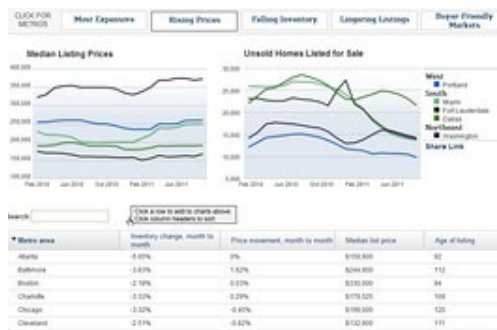
Slim Pickings Are Latest Headache for Home Sales

By NICK TIMIRAOS

The housing market, which has struggled with an oversupply of homes for years, is facing a new problem: a lack of attractive inventory.

Housing Inventories Down

The number of homes for sale fell for the fourth straight month in September to the lowest level of the year. Track housing inventories.



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WSJ's Nick Timiraos joins the News Hub to discuss an ironic new headache facing the housing industry: low inventory. AP Photo/Chris Carlson

There were more than 2.19 million homes listed for sale at the end of September, down 20% from a year earlier, according to a new report from the real-estate website Realtor.com. That is the lowest level since the company began its count in 2007.

The report is the latest sign of how the U.S. housing market can't seem to catch a break. While falling inventories are typically a sign of health, because reduced competition can boost prices, that isn't the case right now.

Instead, real-estate agents say, people are pulling their homes off the market rather than try to sell them at today's discounted prices. At the same time, banks have been more slowly moving to take back properties through foreclosure ever since processing irregularities surfaced last fall, temporarily reducing the supply of foreclosed properties. The shrinking supply isn't driving up prices because demand is soft.

Yet there is still a substantial "shadow" supply of foreclosures and other distressed homes, estimated to be more than one million, that is likely to stream onto the market in the coming years. The pent-up supply is another constraint on any of the price gains that might normally occur when supply falls.

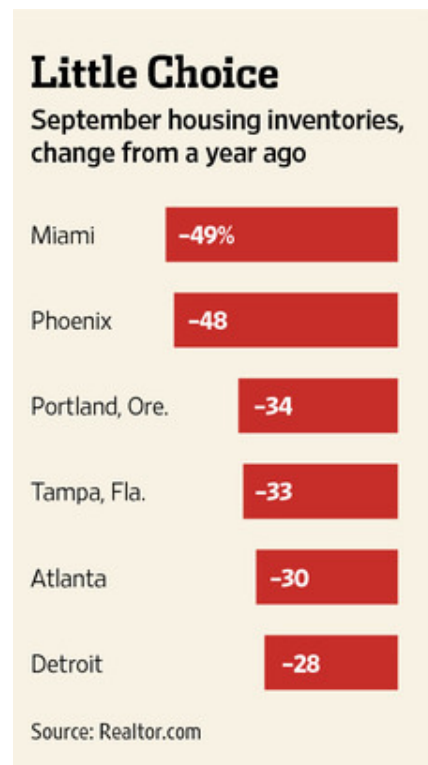
The decline in inventory also suggests that there are fewer opportunities for buyers and sellers to strike deals. That can further chill sales, as buyers become afraid to overpay while sellers are similarly cautious about underpricing their homes.

"The inventory is low, so it's hard for buyers to find their dream home," said Joan Downing, a real-estate agent in Bloomfield Hills, Mich., a suburb of Detroit. "That's been our challenge more than anything: finding the inventory for the clients. Nobody's complaining about the pricing or the interest rates."

In Detroit, the inventory of homes for sale was down by 28% from a year earlier, according to Realtor.com.

Listings were down by 49% in Miami, by 48% in Phoenix and by 46% in Orlando, Fla. Housing inventory was down from one year earlier in all 146 markets tracked by Realtor.com except for Denver and El Paso, Texas.

"On paper, all of the conditions are great for buying, but the reality doesn't seem to match that," said Ross Kutash, a 37-year-old attorney who has looked at more than three dozen homes in different suburbs of Los Angeles. "I wouldn't describe it as a buyer's market so much as no market at all."



Mr. Kutash and his wife, who recently had a baby, are looking to move out of their one-bedroom apartment in West Hollywood. "For our sanity, we're in a hurry," he said.

The Realtor.com data include only single-family homes, townhouses and condominiums listed for sale on more than 900 multiple-listing services across the country. They don't include unsold homes listed as "for sale by owner" or other properties that don't find their way onto the multiple-listing services.

The National Association of Realtors calculated that there were 3.58 million single-family homes, townhouses and condos for sale at the end of August, down 28% from a year earlier, though still above levels seen in the first quarter of 2011. The calculation differs from Realtor.com's because it estimates the entire universe of single-family homes for sale. The NAR is in the process of recalibrating its methodology. Both sets of data show housing inventory at a historic low.

Mortgage rates have fallen to their lowest levels in decades, but demand remains weak and credit standards tight. Mortgage applications for home purchases were 3% below year-ago levels during the first week of October, according to the Mortgage Bankers

Association.

Industry executives say shortages of well-priced and attractive homes are a bigger drag on sales than sluggish demand.

"As weak as demand is, inventory has been weaker," said Glenn Kelman, chief executive of Redfin Corp., a Seattle real-estate brokerage firm that does business in 13 states. "Right now, the absence of inventory is the limiting factor on sales volume."

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