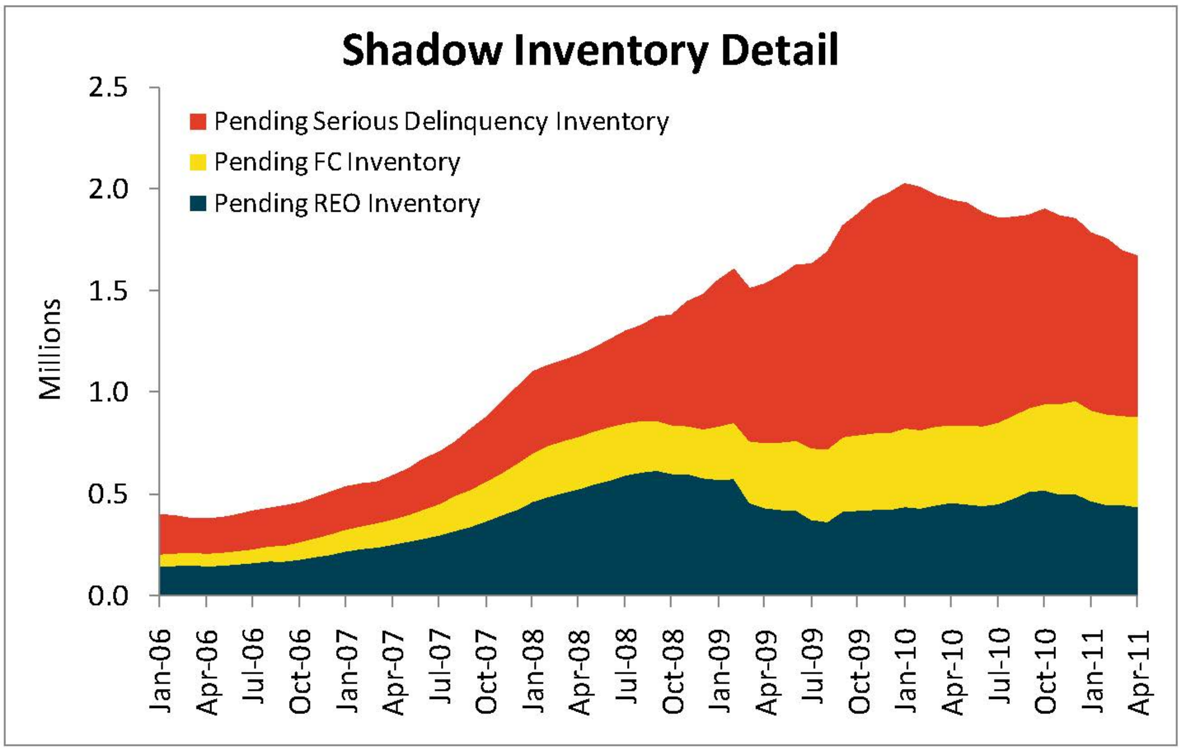
Shadow inventory has declined 200,000 units in the last year and by fifteen percent from the peak but still totals 1.7 million units.

Current visible inventory (not shadow) of listed properties is 3.72 million which is excessive by approximately 770,000 units. The highest excess inventory in the crash was 1.6 million units in July 2007.

CoreLogic estimates pending supply ("shadow inventory") by calculating the number of distressed properties not currently listed for sale that are seriously delinquent (790,000 units), in foreclosure (440,000 units) or real estate owned by lenders (440,000 units). Please see chart below of shadow-inventory supply. Click image for full-screen view.

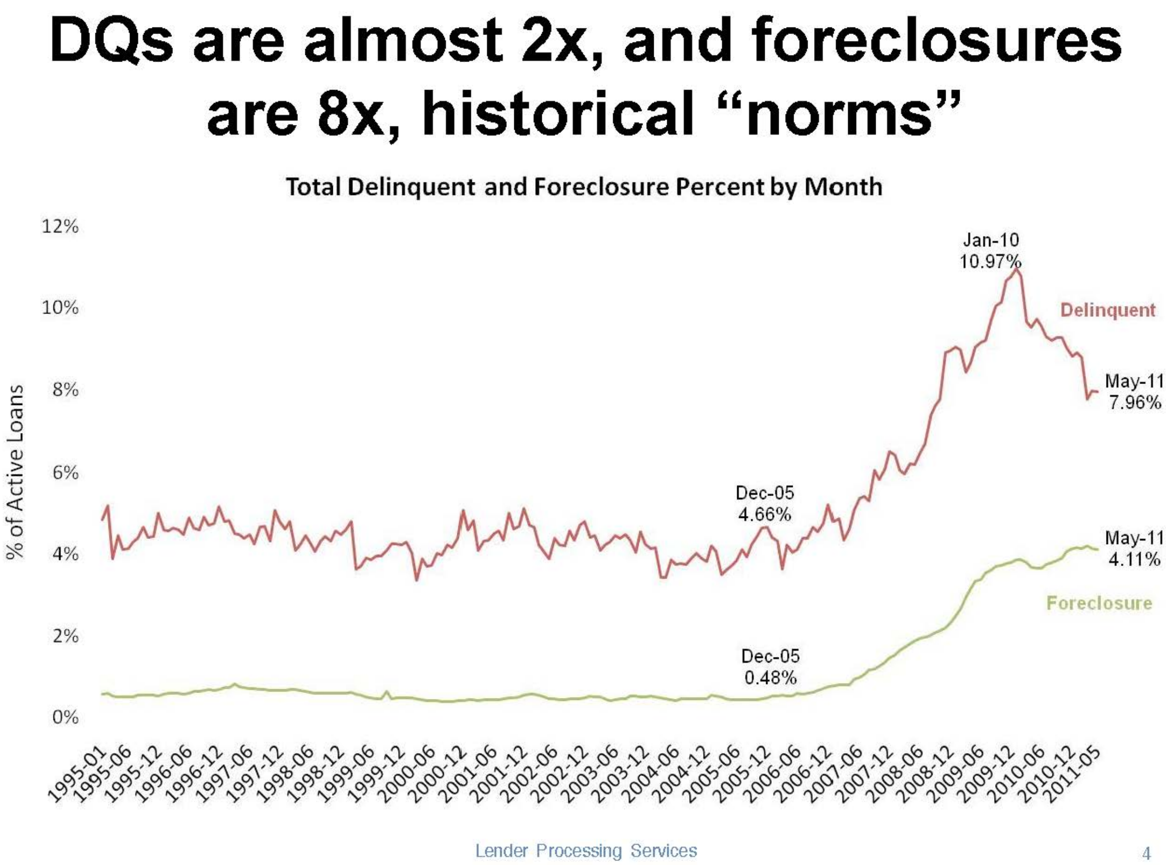


The shadow inventory's size is a barometer of housing-market health because foreclosed homes sell for an average discount of approximately 20% and falling values discourage buying.

The shadow inventory peaked in January 2010 at 2 million units. The total shadow and visible inventory was 5.7 million units in April 2011, down from 6.2 million units a year ago.

Negative-equity mortgages are another add-on to the shadow-distressed category. There are 2 million not-delinquent negative-equity mortgages that are more than 50 percent or $150,000 "upside down." HousingStory.net recently estimated that high negative-equity mortgages are six times more likely to default.

The recent reduction in stress in residential real estate is based on mortgage delinquencies falling to 8.32 percent in the first quarter, down from a record 10.06 percent in 2010's first quarter (May report of the Mortgage Bankers Association). Please see the chart below of mortgage delinquencies.



Foreclosures and short sales, in which the lender agrees to a sale for less than the balance of the mortgage, accounted for 31 percent of existing-home sales in May.

Perhaps the scariest and strangest aspect of the shadow-inventory world is that the foreclosure process has gotten drawn out to the extreme. The gargantuan level of ineffectiveness in the prosecution of foreclosures can be seen by LPS's recent estimate that for every sale of a repossessed home there are 50 more homes in foreclosure.

"At current sell-through rates, it would actually take us almost 12 years to work through that inventory," said Rick Sharga, senior vice president of RealtyTrac, in an interview with Bloomberg Television. "It won't be that bad, but that just kind of gives you an idea of the scale of the problem."