

## How Concerned About Shadow Inventory Should We Be?

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'Shadow inventory' is a term being thrown around more and more in the news. Is it something that real estate investors should be worried about or is it just more scaremongering?

Shadow inventory are the properties that banks have foreclosed on or which are being foreclosed on and are not currently actively listed for sale. Some have come out in the news proclaiming that this additional inventory potentially threatens to further damage the housing market and weaken home values due to over supply.

Currently there are around 3.5 million properties for sale in the US and we are on track to see approximately 5 million units sold this year. Not a bad ratio at all. This puts us at about 9 months worth of inventory or 3 months more than were we would like to be at in a healthy real estate market.

Right now we are on the right path but the worry is that more homes coming on the market could skew the picture. Some have thrown out numbers as high as an additional 3.5 million properties which could come up for sale. However, when you actually dig into these numbers they are based on a lot of assumptions and not what is likely to happen. The banks certainly are holding a lot of additional inventory which is slowly making its way on to the market. This is actually smart for them to do strategically and will be great for real estate investors as controlled release will keep values up yet continue to provide bargain priced wholesale properties for several years.

However, many of these news articles are trying to count homes which have just fallen delinquent on their mortgages or have just received a notice of default. Note that this can happen on properties which are just 30 days late on their loans, leaving plenty of time for homeowners to catch up on their payments. Many more of these homeowners are likely strategically defaulting in order to motivate lenders to grant them loan modifications and have no intention of letting their homes go. Others will sell quickly as short sales especially with banks like Wells Fargo no openly offering \$10,000 to \$20,000 to homeowners to hand in their keys amicably.

So the bottom line for real estate investors is that there will continue be many deals to be done and that 'shadow inventory' is probably not as big a threat as some sensational headlines would like to make out.

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