

# **The Cromford Report™ - Monthly Market Review – July 28, 2010**

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## **Greater Phoenix – Single Family Detached**

### **Market Headlines**

- Sales numbers falling sharply in July as expected following the drop in pending sales in May and June.
- Supply increasing dramatically below \$200,000 but still decreasing above \$200,000.
- Lender owned supply growing significantly at all price levels, a potential cause of lower pricing ahead.
- Sales pricing down 3% in the last month to \$89 per sq. ft. with more weakness likely to follow.

### **Overview**

During May and June the mild to moderate deterioration in the resale residential market could be easily explained by the expiration of the tax credit which had helped fuel demand during March and April. But in the last four weeks the market has taken a distinct turn for the worse and a combination of new factors appear to be diminishing demand and increasing supply. The market deterioration at price ranges under \$200,000 is now quite severe.

All significant indicators are pointing to an overall slowdown. Inventories are up, listing success rates are down, sales volumes are down, listings under contract are down, the contract ratio is down and the distress index is up. We see no short term stimulus to reverse this direction at the moment and when this new data becomes widely known it is likely that pessimism will breed further market deterioration.

Higher end homes did not experience as much of a cooling trend and the supply/demand balance has not changed as much because the fall in demand is partly balanced by a fall in supply. Competitive pricing has been bringing renewed buyer interest in luxury homes, although the increased inventory of REOs at the high end is likely to stimulate more bargain hunting and less interest in homes that are over-priced.

The breakdown of pending sales is similar to last month, with 39% lender-owned and 37% short sales/pre-foreclosures. Normal listings comprise only 24% of pending sales, slightly less than at the same time last year. We expect the average sales price per sq. ft. will fall over the next two months, giving back some of the gain that we saw during 2009.

## Foreclosures

Banks continue to order trustee sales at a fairly constant and high rate. The number of new foreclosure notices had been falling steadily since 2009, but this trend shows significant signs of reversing in July. This may be a short term effect as lenders try to process as many foreclosure notices as possible before the introduction of new legislation that comes in effect on July 29. This legislation places new obligations on lenders filing a foreclosure notice. Despite the increase in notices, the inventory of homes with pending foreclosures continues to fall from its peak in December 2009.

## Contrasting Price Ranges

The market can be divided into price ranges, each of which has its own characteristics. We analyze five distinct price ranges below, contrasting July 26 numbers with those of April 26:

### 1. Homes under \$100,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	8,448	Up 22.5%
Current Demand	Pending Sales	3,026	Down 21.2%
Recent Demand	Sales per Month	1,797	Down 16.1%
Sales Pricing	Avg. Price per Sq. Ft.	\$47.15	Down 1.2%
Active Pricing	Avg. Price per Sq. Ft.	\$49.55	Down 1.7%

**Summary: This market is suffering a severe drop in demand and a growing inventory.**

The 21.2% drop in pending sales compared with April 26 shows us that demand has stalled. With the reduction in demand, inventory has started to accumulate with active listings now 22.5% above the level of April 26. Most of that increase happened in June and July. Lender owned listings grew the most, increasing by 48% while active short sales rose less than 13%. The monthly sales rate for single family homes priced under \$100,000 also fell in July after a relatively healthy June and is now over 16% lower than on April 26. It is a remarkable 34.6% below the monthly sales rate of July 26, 2009.

Supply, based on the monthly sales rate, grew from 3.4 months on June 26 to 4.7 months on July 26 and is now at the highest level we have seen since February 2009. In addition the annual sales rate fell from 28,216 to 25,465 so when measured on an annual sales basis, inventory rose from 89 to 121 days. This is a sudden and significant increase that indicates a major change in market dynamics.

This price range is more dominated by REOs than any other, with lender owned homes rising from 23% to 27% of active listings. However REOs now comprise 61% of monthly sales, down from 65% in April, with short sales taking up the slack rising from 21% to 27% and normal sales only 12% (down from 14%). We can deduce that buyers' interest is shifting away from REOs and towards short sales. The market distress index remains very high at 85.1 and the contract ratio has fallen from 129.2 to 73.0 showing us how dramatically buyer interest has waned. Active list pricing remains close to average sales pricing suggesting that most sellers are pricing realistically in this price range.

The weakening demand is probably due to a combination of several factors:

- The aftermath of the tax credit, pulling demand forward into April from May, June and July
- High unemployment instilling lack of confidence and possibly causing people to look for work out of state
- Poor finance availability with many obstacles to getting loans approved
- A shortage of qualified buyers and widespread poor credit
- Investors getting nervous of a double dip, buying more cautiously than in 2009

- The increased focus on illegal immigration which seems to be causing both legal and illegal minority residents to consider moving out of the state and thus reduce the need for housing
- Arizona getting widespread negative attention ("the kidnapping capital of the US", "headless corpses", "drug running", boycotts, etc.), which may be reducing the attractiveness of the state to potential new residents

Many potential first time homeowners who have sufficient qualifications for financing are likely to have already moved to buy a house while the tax credit was available. When looking at the overall picture, this price sector has deteriorated more than any other and is no longer able to absorb the constant flow of foreclosed homes that continue to hit the market at a steady pace. Unless investor interest is stimulated, the situation will probably deteriorate further. The most likely change that would cause investor interest to grow is a reduction in pricing. Since banks are not usually slow to drop the prices of their REO inventory this is a likely scenario in the coming months. The short term outlook for this sector is very poor.

The most active ZIP codes for sales in this price range were Buckeye 85326, Phoenix 85037, El Mirage 85335, Peoria 85345, Phoenix 85041, San Tan Valley 85143 and Phoenix 85033.

## 2. Homes Between \$100,000 and \$200,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	12,627	Up 5.8%
Current Demand	Pending Sales	3,645	Down 34.1%
Recent Demand	Sales per Month	2,470	Down 21.7%
Sales Pricing	Avg. Price per Sq. Ft.	\$71.18	Down 3.3%
Active Pricing	Avg. Price per Sq. Ft.	\$75.26	Down 1.2%

**Summary: This market continues to deteriorate with a sharp fall in demand and a big rise in REO inventory.**

Single family homes between \$100,000 and \$200,000 experienced a significant increase in active listings, rising 5.8% in the last three months. This increase did not affect all types equally since active lender owned listings rose nearly 39% while short sales fell by 1% and normal listings rose only 2%. The monthly sales rate has dropped sharply during July so months' supply as of July 26 was 5.4 compared with 3.6 on June 26. In contrast the annual sales rate grew slightly from 32,538 to 32,619 so when measured on an annual sales basis, inventory rose only slightly from 136 to 141 days over the same period.

Between June 26 and July 26 REOs grew from 17.4% to 19.4% of active listings, and from 38% to 39% of monthly sales. Short sales grew from 24% to 29% of monthly sales. The market distress index deteriorated from 64.9 to 68.0 and the contract ratio fell from 71.8 to 62. Active listing pricing is close to average sales pricing suggesting that the majority of sellers are pricing realistically in this price range. The short term outlook for this sector is poor.

The most active ZIP codes for sales in this price range were Surprise 85379, Maricopa 85138, Queen Creek 85142, Goodyear 85338, Gilbert 85296, Chandler 85225 and Laveen 85339.

## 3. Homes Between \$200,000 and \$400,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	6,995	Down 9.2%
Current Demand	Pending Sales	1,791	Down 28.9%
Recent Demand	Sales per Month	1,174	Down 20.2%
Sales Pricing	Avg. Price per Sq. Ft.	\$102.85	Down 1.5%
Active Pricing	Avg. Price per Sq. Ft.	\$112.40	Down 2.0%

**Summary: Demand has fallen sharply in this market but supply is also down.**

Single family homes between \$200,000 and \$400,000 experienced a reduction in active listings, falling 9.2% in the last three months. This reduction did not affect all types because active lender owned listings were up over 3% while short sales were down 4% and normal listings down 14%.

The monthly sales rate fell by a startling 28.9% between April 26 and July 26 causing months' supply to increase from 5.1 to 5.8 months despite the reduction in active listings. The annual sales rate was almost static moving from 16,168 to 16,048 over the three months, so when measured on an annual sales basis, inventory fell significantly from 174 to 159 days.

REOs declined from 25% to 22% of monthly sales, short sales grew from 20% to 28% while normal sales fell from 55% to 50%. The market distress index deteriorated from 43.2 to 47.4 and the contract ratio fell from 61.5 to 51.4 indicating that buyer interest has declined relative to supply in this price range. Average active listing pricing is still noticeably higher than average sales pricing suggesting that not all sellers are pricing realistically in this sector. The short term outlook for this sector is somewhat negative.

The most active ZIP codes for sales in this price range were Peoria 85383, Phoenix 85086, Chandler 85249, Scottsdale 85254, Gilbert 85234, Chandler 85286, Phoenix 85048 and Queen Creek 85142.

**4. Homes Between \$400,000 and \$800,000**

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	2,812	Down 14.9%
Current Demand	Pending Sales	492	Down 21.4%
Recent Demand	Sales per Month	307	Down 20.1%
Sales Pricing	Avg. Price per Sq. Ft.	\$150.47	Down 0.9%
Active Pricing	Avg. Price per Sq. Ft.	\$168.57	Down 3.0%

**Summary: This market improved in June but reversed course in July.**

Single family homes between \$400,000 and \$800,000 experienced a large reduction in active listings, falling by 14.9% in the last three months. However active lender owned listings rose nearly 12% while short sales were down nearly 12% and normal listings were down nearly 18%.

Despite this reduction in supply, the reduction in demand was even greater. The monthly sales rate dropped over 20% and pending sales over 21%. As a consequence the months' supply rose from 8.6 on April 26 to 9.2 months, which was a very big jump from the 6.2 months we recorded on June 26. The annual sales rate grew slightly from 4,113 to 4,159 so when measured on an annual sales basis, inventory fell from 293 to 247 days. We can therefore see that the short term volatile measurement (months' supply) is giving us a negative signal while the long term stable measurement (days inventory) remains positive. The overall message is mixed but definitely less positive than last month.

REO supply has jumped from 4.9% of active listings to 6.4% in the last three months, but declined from 17% to 13% of monthly sales. Short sales grew from 18% to 23% of monthly sales.

The market distress index deteriorated from 30.4 to 32.4 and the contract ratio fell slightly from 32.9 to 31.0. Average active list pricing is gradually getting closer to average sales pricing so we deduce that more sellers are pricing realistically in this price range.

Although this market has deteriorated in the last month, it has suffered much less than the lower price ranges. The short term outlook for this sector is slightly negative.

The most active ZIP codes for sales in this price range were Scottsdale 85255, Scottsdale 85259, Scottsdale 85262, Cave Creek 85331, Chandler 85249, Scottsdale 85258, Mesa 85207 and Phoenix 85048.

**5. Homes over \$800,000**

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	2,064	Down 20.3%
Current Demand	Pending Sales	146	Down 20.2%
Recent Demand	Sales per Month	108	Down 5.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$265.86	Up 4.6%
Active Pricing	Avg. Price per Sq. Ft.	\$363.77	Down 0.7%

**Summary: Demand falls but supply falls even faster. This market is at risk, but performing better than lower price ranges.**

Single family homes over \$800,000 have experienced a large reduction in active listings, falling by 20.3% in the last three months. The reduction in supply was largest among normal listings at 22.1%, while short sale listings declined 15.8%. In contrast REO listings were up 10.5% over since April 26.

The monthly sales rate dropped 5% between April 26 and July 26 but this is much less than for the other price ranges. Months’ supply declined from 22.7 to 19.1 months. The annual sales rate grew from 1,402 to 1,446 so when measured on an annual sales basis, inventory fell significantly from 675 to 521 days.

REO supply remained relatively low but increased from 3.3% to 4.6% of active listings, and dropped from 18% to 13% of monthly sales. Short sales remained at 17% of monthly sales. The market distress index improved from 24.5 to 22.4 but the contract ratio fell from 12.1 to 11.0, so we see mixed messages there.

Active listing pricing is still much higher than average sales pricing so we can surmise that many sellers are not pricing realistically in this price range. However there are now sufficient bargain priced properties and buyer interest for this price sector to improve relative to the other sectors. The improvement is weaker than in June however and the rise in active REO listings is potentially troublesome. The short term outlook for this sector is neutral to slightly negative.

The most active ZIP codes for sales in this price range were Paradise Valley 85253, Scottsdale 85255, Scottsdale 85262, Scottsdale 85259, Scottsdale 85266, Fountain Hills 85268, Mesa 85207 and Carefree 85377.

**Forecast**

The first four weeks of July have shown surprising weakness, much worse than we anticipated a month ago. The increase in supply and falling demand has spread from the low end up to the \$400,000 to \$800,000 level, but the bottom end of the market remains by far the worst affected. The high end has deteriorated from positive to fairly neutral. All indicators now point to a weaker market so we expect pricing to soften over the next several months.

Most of the price decline we forecast last month has already occurred. Nevertheless we anticipate sales pricing falling by about 0.5% to 1.5% over the next four weeks, ending up between \$87 and \$90 per sq. ft. for the overall Greater Phoenix market.

Active list price per sq. ft. will probably continue to fall at a greater rate across all price ranges as asking prices continue to get more realistic.

## Explanations of Terms Used

<b>Active Listings</b>	Listings of homes for sale on ARMLS with status active. They include those with a contingent offer if the home is still being marketed. Measured on the first day of each calendar month.
<b>Annual Sales</b>	Listings successfully closed on ARMLS during the twelve months that ended on the last day of the month shown.
<b>Contract Ratio</b>	This is a key indicator of the current balance of supply and demand. It is based on the ratio between listings under contract (pending or AWC) and listings for sale (Active). A typical value for a balanced market is 30. Values under 20 indicate a cold market with low demand and/or high supply while values above 40 indicate a hot market with high demand and/or low supply. Low price sectors tend to show much higher numbers than luxury sectors.
<b>Days Inventory</b>	Measures the time it would take to sell all the active listings based on the current rate of sales per year. It is a conservative seasonally-adjusted measure of the inventory of homes available for sale.
<b>Foreclosure Notice</b>	The first step in a foreclosure, officially known as a Notice of Trustee Sale.
<b>Market Distress Index</b>	Based on the percentage of REOs, short sales and pre-foreclosures among the active listings and monthly sales, this index provides an indicator of how much the market is dominated by distressed properties. The minimum is 0 and the maximum is 100.
<b>Monthly Sales</b>	Listings successfully closed during the month shown.
<b>Months' Supply</b>	Measures the time it would take to sell all the active listings based on the current rate of sales per month. It is a volatile and seasonal measure of the inventory of homes available for sale.
<b>Normal Sales</b>	Sales which were not lender owned, short sales or pre-foreclosures among the monthly sales.
<b>Pending Foreclosure</b>	A home with an outstanding foreclosure notice that has not yet had its trustee sale or been cancelled.
<b>Pending Sales</b>	Listings of homes for sale on ARMLS with status pending. This means they have an accepted contract and are currently in escrow and are no longer being actively marketed.
<b>Sales per Month</b>	The number of listings successfully closed during the calendar month. Also referred to as the Monthly Sales Rate.
<b>Sales per Year</b>	Listings successfully closed on ARMLS during the twelve months that ended on the last day of the month shown.
<b>Short Sales</b>	Cannot be sold without the approval of the lender(s) because the expected proceeds are insufficient to repay the existing loan(s). Pre-foreclosures are included in the short sale counts.
<b>REO</b>	Lender owned properties (Real Estate Owned) among the monthly sales
<b>Trustee Sales</b>	Completed foreclosures. The final step in a foreclosure is when the trustee sale occurs.
<b>Sales Price per Sq. Ft.</b>	Average pricing expressed in dollars per square foot. Less volatile than median price or average price.

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