

# **The Cromford Report™ - Monthly Market Review – Jan 30, 2011**

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

### **Market Headlines**

- The overall market balance between supply and demand has improved markedly since November.
- Below \$100,000 demand is surging due to the recent sharp falls in sales and asking prices.
- High activity at the bottom of the market is dragging the overall price average down
- Sales prices are higher month to month for sectors over \$200,000.
- Sales pricing has now risen for four straight months for homes between \$400,000 and \$800,000.

### **Overview**

Despite sales pricing reaching a new low point in January, there are signs of a gentle but significant improvement in the overall market dynamics. The drop in average and median pricing is NOT across the board but is caused by a spike in the volume of sales at the bottom end of the market. This improved demand for the cheapest homes is a welcome sign even though it makes the price numbers look bad.

For the first time for many months we do not have to report a jump in supply at the low end, and above \$100,000 supply has been falling for some time. In the mid and upper ranges we see more evidence of price stability and inventory is in a slow decline.

The resumption by Bank of America of its trustee sales has so far had only a minor effect on supply but we would expect a surge of low end REOs coming onto the market in March and April. This is likely to affect the hard-hit low end of the market most severely. In contrast REOs above \$400,000 are getting relatively scarce and competition for them remains strong.

### **Foreclosures**

New notices of foreclosure jumped unexpectedly by about 16% in January over December but this does not change the overall downward trend that started as long ago as April 2009. Trustee sales volume is likely to be about 30% higher in January than December as activity continues to rebound from the unusual hiatus in November.

**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 January 26 numbers with those of October 26:

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	11,351	Up 7.4%
Current Demand	Pending Sales	3,643	Up 14.6%
Recent Demand	Sales per Month	2,214	Up 24.6%
Sales Pricing	Avg. Price per Sq. Ft.	\$42.07	Down 4.1%
Active Pricing	Avg. Price per Sq. Ft.	\$46.03	Down 3.9%

**Summary: Rapid price declines have created stronger demand, while inventory growth has stalled.**

Pricing continues to fall fastest in this price range as we predicted last month. At \$42.07, average sales price per sq. ft. is down 1.3% in the last month and 10.4% over the last twelve months. Despite this, we note that we have still not gone below the low point of \$41.66 that we measured on April 26, 2009. However the gap is now just 41c. Pending sales are priced at \$43.48 per sq. ft., 2.1% below last month and down 5.4% over the last 3 months. So it seems quite likely that pricing will make a new record low next month.

These steep falls in price are strongly stimulating demand and sales volume is very high for this normally quiet month, up 24.6% over October and almost flat with the very strong number we measured in December. 2,214 may not sound like an exceptional number but this is up 33.7% over January 2010. Pending sales are almost as high as in May 2010 just after the expiry of the tax credit.

Is all this extra demand making a dent in supply? Not quite. Active listings are up 7.4% over the last 3 months but flat between December and January. So demand has grown to keep pace with the strong supply generated by the foreclosure process.

This supply is more distressed than in recent months. Once again, lender owned listings have grown the most, increasing by 3.5% in the last month and up 18.5% since October. Active short sales and pre-foreclosures are down 1.7% in the last month but up 3.8% since October while normal listings are down 1.7% in the last month and down 0.9% since October. Of course many of the latter are flips - former foreclosed homes that have been acquired by investors then fixed up and resold. REOs constitute 32.7% of the supply, the highest number we have measured for this price sector.

Look at closed transactions we see a different mix however. REOs are 68% of sales while short sales and pre-foreclosures make up 21% and normal sales only 11%. This latter number is the lowest we have measured since November 2009.

It is interesting that pricing for REOs is lower now than when we hit the first market bottom in April 2009: \$40.58 versus \$40.98. Short sales and pre-foreclosures are also lower at \$43.53 versus \$49.30 per sq. ft., while normal sales are also lower at \$49.06 versus \$50.08. However the overall average is still higher! How can this be? The wonders of mathematics! In April

2009 REOs made up 93% of sales in this price range compared with 68% now, so they dragged the overall average lower than they do today.

With demand rising and supply flat, the market below \$100,000 has improved quite a bit in the last two months. As we approach a balance between demand and supply, the downward pressure on prices is starting to ease. The weakest reading for sale pricing as a percentage of list was 94.9% last month and we have since recovered slightly to 95.7%.

Inventory now stands at 169 days measured using the annual sales rate (24,517), an improvement over 173 last month.

Trustee sales are likely to increase over the next two months. This is due to the after-effect of the Bank of America suspension last quarter. This could increase supply and counter-balance the recent surge in demand, but the precise effect is difficult to predict.

The market distress index has increased to 87.5 but the contract ratio has gained 4.4 to stand at 58.2. Active list pricing is still falling at a rate of 1.3% per month so it appears that sellers (mainly lenders or government entities) are rapidly adapting to the competitive supply situation.

With strengthening demand and very robust supply, the short term outlook for this sector has improved from very poor to slightly negative. If the improvement continues it is possible we could see a turn round before the spring, but it is too early to make this call as yet.

The most active ZIP codes for sales in this price range were San Tan Valley 85143, Phoenix 85037, Buckeye 85326, Phoenix 85041, Phoenix 85033, Maricopa 85138, El Mirage 85335 and Peoria 85345.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	11,961	Down 9.2%
Current Demand	Pending Sales	3,285	Down 7.3%
Recent Demand	Sales per Month	2,138	Down 2.8%
Sales Pricing	Avg. Price per Sq. Ft.	\$68.24	Down 2.2%
Active Pricing	Avg. Price per Sq. Ft.	\$73.37	Down 1.2%

**Summary: Supply and demand both down but pricing looking firmer going forward.**

Having peaked in October, supply has fallen back to the level of March 2010 for single family homes priced between \$100,000 and \$200,000. saw another fall in active listings, down 4.8% over the last month and down 6.7% when compared with September. Lender owned active listings are down by 10.5% since October while short sale listings are down 10.1% and normal listings down 7.2%.

Unfortunately the reduction in supply was offset by a reduction in demand with the monthly sales rate down 8.9% compared with December and down 2.8% since October. Pending sales counts gave us a mixed message - up 4.6% in the last month and down 7.3% over the last 3 months. Months' supply lengthened to 5.6 months in the last month due to the drop in sales rate. However when measured against annual sales (31,040), inventory fell from 147 to 141 days over the same period.

Between December 26 and January 26 REOs increased from 43% to 47% of monthly sales while normal listings fell back from 35% to 30%. Short sales and pre-foreclosures increased their share from 22% to 23% of sales. The market distress

index deteriorated from 66.3 to 68.1 but the contract ratio advanced from 50.0 to 53.9. Only the last of these may be read as a positive signal.

With proportionally more distressed homes in the mix, average sales pricing moved lower during January to \$68.24 per sq. ft., down 1.4% compared with December and down 2.2% from October. A much more positive signal came from the average price for pending sales which rose 2.0% from \$69.10 to \$70.47 per sq. ft. over the month, suggesting stronger sales pricing over the next few weeks.

Active listing pricing is still moving downward slowly. With the improvement in the supply position balancing the reduction in demand, the outlook for this sector still remains slightly negative.

The most active ZIP codes for sales in this price range were Surprise 85379, Gilbert 85296, Goodyear 85338, Peoria 85382, Gilbert 85295, Maricopa 85138, Phoenix 85086, Laveen 85339 and Surprise 85388.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	6,588	Down 9.2%
Current Demand	Pending Sales	1,484	Down 7.1%
Recent Demand	Sales per Month	968	Down 10.9%
Sales Pricing	Avg. Price per Sq. Ft.	\$100.67	Up 0.9%
Active Pricing	Avg. Price per Sq. Ft.	\$111.52	Down 0.3%

**Summary: Prices very stable with both demand and supply declining in accordance with seasonal patterns.**

The supply of single family homes priced between \$200,000 and \$400,000 dropped by 2.0% between December 26 and January 26, and is now down 9.2% over the last three months. Over the last month REO supply dropped by 7.3%, short sales and pre-foreclosures fell by 2.8% and normal listings by just 0.70%.

The encouraging reduction in supply was offset by a corresponding reduction in demand. The monthly sales rate fell by 10.0% between December 26 and January 26 causing months' supply to rise from 6.3 to 6.8. The annual sales rate held steady at 14,877, but the fall in active listings meant that when measured on an annual sales basis, inventory has fallen from 165 to 162 days. In a sign that the falling demand is about to reverse, the number of pending sales grew by 5.9% between December 26 and January 26.

In contrast to last month, REOs grew from 25% to 29% of monthly sales, while short sales jumped from 21% to 26% and normal sales fell back from 54% to 46%. These changes caused the market distress index to jump from 43.8 to 47.5 but the contract ratio improved from 39.5 to 42.3 over the last month.

Despite the increased number of distressed property sales, average sales pricing was almost flat between December and January moving from \$100.78 to \$100.67 per sq. ft., almost the same as three months ago. Overall sales pricing has held very steady now since August, unlike the sectors below \$200,000. List prices for active listings were only very slightly down at \$111.52 per sq. ft. while the average list price of pending sales fell slightly to \$101.34 from \$101.59 per sq. ft.. This reading has also held very steady for six months now.

We normally see weaker demand each January and six months' stability in pricing is a sign that this sector is neither deteriorating nor improving. We would therefore describe the short term outlook for this sector as neutral.

The most active ZIP codes for sales in this price range were Peoria 85383, Scottsdale 85254, Phoenix 85086, Cave Creek 85331, Chandler 85286, Gilbert 85298, Gilbert 85234 and Mesa 85207.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	2,634	Down 7.1%
Current Demand	Pending Sales	427	Down 6.4%
Recent Demand	Sales per Month	255	Down 8.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$145.02	Up 1.9%
Active Pricing	Avg. Price per Sq. Ft.	\$170.58	Up 0.8%

**Summary: Sales prices now show four months gentle improvement and supply is at a twelve month low. Not bad.**

We again see three green figures in our table indicating that this sector continues to stabilize. Single family homes between \$400,000 and \$800,000 have experienced a 1.8% fall in active listings over the last month and supply is now 7.1% lower than in October. The demand picture is mixed, with monthly sales falling back by 8.3% during January but pending sales growing by a healthy 14.8% over the last month.

Months' supply now stands at 10.3 months compared with 9.6 months on December 26, but this is an effect of the seasonal sales pattern. The annual sales rate improved very slightly to 3,934 and so the fall in active listings gave us a welcome fall in inventory from 250 to 244 days when measured on an annual sales basis.

REO supply was sharply down over the last month by 13.6% and short sales and pre-foreclosures dropped 6.3% while normal listings grew by 0.4%. Although REOs were less than 5% of active listings they comprised 17% of monthly sales, down from 22% in December. Short sales took a 24% market share of sales while normal sales rose remained at 58% As a result the market distress index improved from 33.8 to 33.0. The contract ratio grew from 25.2 to 27.4, the best figure since August.

Average sales pricing for this price range has risen gently but firmly over the last four months. In addition the average price for pending sales improved from \$148.08 to \$148.77 per sq. ft. over the last month. Following suit, active list pricing also rose from \$169.51 to \$170.58 per sq. ft. ft.

January's demand is not unduly weak, especially considering the relatively large proportion of normal sales in this price range. In fact the monthly sales rate is 6.7% than at the same time in 2010. With prices gently rising and supply lower than at any time in the last year, we now feel this sector is firmly in long slow recovery mode. The relative scarcity of distressed listings (normal listings are over 75% of the active supply) things are looking up and so the short term outlook for this sector is slightly positive.

The most active ZIP codes for sales in this price range were Scottsdale 85255, Phoenix 85018, Fountain Hills 85268, Scottsdale 85262, Mesa 85207, Scottsdale 85259, Scottsdale 85266, Chandler 85248, Peoria 85383 and Chandler 85249.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	1,982	Down 0.9%
Current Demand	Pending Sales	138	Up 7.0%
Recent Demand	Sales per Month	86	Up 13.2%
Sales Pricing	Avg. Price per Sq. Ft.	\$244.26	Up 0.2%
Active Pricing	Avg. Price per Sq. Ft.	\$355.90	Down 1.1%

**Summary: Supply down and demand up with distressed homes now fewer in number than for over a year.**

The supply of homes above \$800,000 fell very slightly last month and is now down 0.9% compared with three months ago though still higher than in August and September. After a very strong December, sales were down 14% but are 13.2% higher than October. Compared with a year ago sales are down 23.9% so demand remains weak by historic standards. Pending sales are 9.5% higher than December.

The weaker monthly sales rate and similar number of active listings means that months' supply increased from 19.9 to 23.0 over the last month. The annual sales rate also fell back and is now at 1,289 so when measured on an annual sales basis, inventory increased from 551 to 561 days.

Despite the relatively small supply of REOs (76 as of January 26), they still managed to take a 22% share of monthly sales. The REO sales price average of \$210.46 per sq. ft. is in the middle of the range for the last two years (\$178 to \$242) showing no real trend up or down. The pricing for short sales and normal sales were however at the lower end of their two year ranges at \$208.34 and \$267.16 respectively. The market distress index fell to 24.7 from 26.8, the lowest score since July 2010 and the contract ratio improved from 10.2 to 11.9, both signs of improvement.

At last we saw some movement in average active listing pricing – down 1.7% in the last month but still much higher than achieved sales pricing. Many sellers continue to set very unrealistic list prices in this sector. The monthly average sales price per sq. ft. was down 7.6% compared with December but the relatively small number of sales in this price range often leads to considerable fluctuation from month to month. However the annual average price per sq. ft. does not fluctuate wildly and is now showing signs of stabilizing around \$250 per sq. ft.

Although demand remains weak by historic standards, pricing seems to have landed at some form of plateau and the short term outlook for this sector remains neutral until conditions change for better or worse.

The most active ZIP codes for sales in this price range were Paradise Valley 85253, Scottsdale 85255, Scottsdale 85262, Scottsdale 85266 and Scottsdale 85259. There were 61 sales among these five ZIP codes and only 27 elsewhere.

**Forecast**

Last month we forecast that sales prices would drop to the range \$80 to \$84 and this indeed came to pass. The actual monthly average sales pricing for single family detached homes across Greater Phoenix was \$80.87 per sq. ft. on January 26. This is significantly below the figures for October 26 through December 26, and the lowest we have measured since April 2009.

The average \$/SF for pending sales has stabilized and suggests we will see little change in average sales \$/SF over the next four weeks. We therefore see prices remaining in the range between \$80 and \$84 with \$82 again the most likely number. Weakness at the low end will probably be balanced by a stronger high end. As usual, much will still depend on the mix between normal, short and REO sales. The rapid rise in the number of pending listings suggests that buying activity will be very brisk this spring and further sharp falls in price are now unlikely unless the supply situation changes unexpectedly.

**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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