

Market Summary for the Beginning of May

Almost all the market indicators for Greater Phoenix have been strongly improving since the fourth quarter of 2010. Let's look at what has happened since then using the numbers for all areas and types of ARMLS residential resale listings.

- Active Listings (Total): Peaking on November 20 at 45,960, supply has since declined by over 25% to 34,364
- Active Listings (excluding those in AWC status): Peaked on November 21 at 39,813, has since declined by over 28% to 26,764
- Pending Listings: Reached a low point of 8,695 on January 2, has since risen 55% to 13,467
- Sales per Month: Reached a low point of 6,195 on January 31, has since risen 49% to 9,237 today.
- Sold % List Price: Reached a low point of 94.23% on December 31, has since risen to 95.57% today.
- Days Inventory: Peaked at 188 on November 21, has since fallen 28% to 135
- Months Supply: Rose to 6.8 on October 6, has since fallen 48% to 3.5
- Listing Success Rate: Reached a low point of 53% on January 31, has since risen to 69%
- Cromford Market Index: Hit a low of 85.2 on September 28, has since recovered strongly to 123.1
- Contract Ratio: Low point of 38.0 on January 1, now more than doubled to 78.7

All of these led us to conclude we were participating in a strong recovery, but until April sales prices stubbornly refused to follow suit and merely stabilized. However during the last ten days of April average price per sq. ft. started increasing in most (but not all) sectors.

We can now declare January 22, 2011 to be an official pricing bottom for the overall ARMLS market (all areas & types), with average sales price per sq. ft. at a low level (\$80.74 per sq. ft.) we are unlikely to see again. As a reminder we experienced another initial bottom in \$/SF prices on April 6, 2009, followed by a rebound that lasted over a year but collapsed along with the expiry of the tax credit incentive in 2010. Those waiting for the second bottom just missed it. It is not impossible that we see a third bottom at some point. However prices are unlikely to weaken while the indicators above

continue to improve. At the moment we are looking at a W shaped recovery pattern and prices are starting to move up the second upward leg.

We should point out that the sales price per sq. ft. for lender-owned homes is still making fresh lows this week. This is not bringing down the overall \$/SF because lender owned homes are gradually falling as a percentage of the total while normal sales are taking a greater share. For example in April 44.6% of sales were REOs compared with 46.8% in March. Normal sales increased their share from 34.0% to 35.7% while short sales, whose sales \$/SF prices have been rising slightly, increased from 19.2% to 19.8%.

Those looking for bargain buys among the single family detached REOs should note that the list price average is now \$71.22 per sq. ft. up from its low point of \$68.77 per sq ft just six weeks ago on March 21. Short sale and pre-foreclosure single family detached list pricing has held steady for several months at around \$79 to 480, while normal list prices for these homes have surged from \$185.96 on September 26 to \$196.53 today.

The recent increase in average sales pricing was quite sharp and was emphasized by greater participation from the luxury market. It is a little known fact that \$/SF pricing for homes above \$300,000 has been moving gently higher since October/November 2010 and sales volumes are on the rise. We should expect increased price volatility over coming months as the mix of sales varies. Remember that August is historically a weak month for pricing.

We will report which sectors have shown the greatest price gain shortly, along with those sectors that have yet to move higher.

In the world of foreclosures, the big news is the rapid fall of new notices of trustee sale. April delivered only 4,418 new notices in Maricopa County of which 4,200 were residential. This is the lowest monthly total since December 2007, nearly three and a half years ago. Completed trustee sales in Maricopa County fell back from the March high as expected, but at 4,709 (4,513 of which were residential) they far outstripped the new notices for the first time ever. This signals a significant phase change in the foreclosure tsunami as the activity starts to decline more rapidly. We are now seeing huge reductions in the pending foreclosure counts, with active notices at the end of April reading 32,203 which contrasts with 51,466 at the end of 2009 and 41,478 as recently as the start of 2011.

Not quite everything is good news. The monthly sales total for April is currently standing at 9,366. Normally this would be very impressive, but after March's 9,995 this suggests demand has reached a peak and fallen back just a bit, and this is reflected in the recent decline of the Cromford Demand Index™. It is the continued reduction in supply that is most encouraging and inventory now stands at just 3.5 months. To put that into context, the average between 2001 and 2011 has been 5.9 months with a minimum of 0.5 (in March 2005) and a maximum of 20.6 (in January 2008). It looks as though the Cromford Supply Index™ will shortly fall below 100 for the first time since November 2005. If you are buying right now, do not go out there expecting to find the widely reported "glut of foreclosed homes for sale". That disappeared several months ago.

The pending \$/SF is also not behaving very well. This is due to the unusual market we are in. Short sales constitute 29% of pending listings but only 20% of sales and they tend to remain pending for long periods, often failing to close at all. Normal listings are only 27% of pending listings but comprise nearly 36% of sales, and they tend to close fast. These factors conspire to make the average list \$/SF of pending listings significantly lower than the actual \$/SF of monthly sales. The mix represented by the pending listings is not currently a true reflection of what will close escrow and that gets increasingly the case as you look out further into the future. Price forecasts (including ours) that are based on measuring pending listings are therefore coming in more pessimistic than they would normally and we recommend that you should be wary of them until the market reverts to a more normal situation.

The big question now is: will higher prices lead to weakening of demand or will the sharp reduction in supply cause buyers to get more aggressive in their offers to ensure they don't miss out on the last chance to capture homes at bargain prices?

For the answer - watch this space!