

The Cromford Report™ - Monthly Market Review – Jun 28, 2011

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Greater Phoenix – Single Family Detached

Market Headlines

- Supply continues to fall, though rather more slowly in the ranges between \$200,000 and \$800,000.
- Demand very strong below \$200,000 but showing seasonal weakness above \$200,000.
- Average sales price per sq. ft. is stable below \$300,000 and increasing above \$300,000.
- A change in the sales mix could adversely affect overall market average prices and medians.
- Foreclosure activity declining and active REO inventory is at the lowest level for several years.

Overview

Active listing counts continue the downward trend that started in late November, while sales rates remain strong. Below \$200,000 we see pending sales remain relatively high, but above \$200,000 the usual summer decline in new buying activity is very noticeable. Overall average sales pricing still remains at the \$83 to \$84 per sq. ft. that we saw last month, and this is still above the level below \$81 that we experienced in January. Investors tend to stay more active over the summer months while out-of-state buyers ease up, so the shifting balance between the low end and the rest of the market may tend to drive the overall average and median prices lower over the next few months. This may happen even if the average \$/SF prices in each of our individual price sectors stay level or move higher.

Foreclosures

New notices of foreclosure look to reach a similar level in June as we saw in April and May, but given that April had the lowest total for any month since 2007, this will be a record low for any three month period since then. Trustee sales volume peaked in March and has been drifting slightly lower over the last three months. The inventory of pending foreclosures continues to fall so the supply of distressed properties is lower than it has been for several years. As a result competition among investors is intense at trustee auctions and for REO properties listed on ARMLS. In response the average REO asking price per sq. ft. on ARMLS has increased by over 7% in the last three months.

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 June 26 numbers with those of three months earlier - March 26, 2011:

1. Homes under \$100,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	7,219	Down 25.2%
Current Demand	Pending Sales	5,027	Up 2.2%
Recent Demand	Sales per Month	3,384	Up 23.9%
Sales Pricing	Avg. Price per Sq. Ft.	\$43.08	Up 2.3%
Active Pricing	Avg. Price per Sq. Ft.	\$45.23	Down 0.4%

Summary: Demand remains strong while supply is still declining. Prices now stable for seven months.

Demand normally falls off during the summer but the demand in this price range is dominated by intense buying by investors who are only slightly affected by the seasons. Sales were down just 1.3% compared with May and up over 48% compared with June 2010. Pending sales fell back 4.3% between May 26 and June 26 but are now 58% higher than in June 2010. Supply is still falling, down 8.6% in the last month and 25.2% in the last quarter. Active listings are now 7.8% below this time last year.

Average sales price per sq. ft. for June was up 2.3% over May and at its highest level since November 2010. The lowest point was during February 2011 at \$41.70 per sq. ft. However, pending sales are priced at \$42.53 per sq. ft., slightly lower than last month, and this suggests the upward price movement remains fairly tentative. Meanwhile the balance between supply and demand continues to improve substantially.

This supply continues to gradually shift away from REOs (down 15.7% in the last month) towards short sales and pre-foreclosures (down 7.1% and now over 60% of active listings in this price range). Normal listings are down only 1.8%, and many of these are flips - former foreclosed homes that have been acquired by investors then fixed up and offered for resale. REOs constitute 24.5% of the supply, but 63% of the sales in this sector. Normal sales were just 13% of the market in June while short sales and pre-foreclosures gained market share at 24%, their highest share since September 2010.

Average pricing per sq. ft. for closed REOs in this price range was \$41.69, the highest figure since September 2010. Short sales and pre-foreclosures gained \$1.13 from \$42.34 to \$43.46, the highest level since January 2011, while normal sales lost 13c from \$49.49 to \$49.30. Inventory now stands at 90 days using the annual sales rate (29,335), another big improvement over last month when it stood at 102 days. Using the monthly sales rate we calculate supply at just 2.1 months.

The contract ratio has jumped to an extreme high of 181.1, mostly due to the record number of AWC (active with contingent contract) short sale listings, which now comprise nearly 40% of active listings. The distress index for this price range remains stubbornly high at 85.8 indicating how few normal listings exist at this price level.

Although average sales \$/SF was up, the active list pricing was down slightly between May and June. Both REOs and short sales are priced around \$43 to \$44 per sq. ft. on average while normal listings are priced just below \$54 per sq. ft. on average.

With demand strong and supply down, the market below \$100,000 continues to show improvement. This is emphasized by the fact that the average achieved sales pricing is now at 99.2% of list whereas in December it was less than 95%. In fact this change accounts for all of the slight sales price increase we have seen over the last five months since the average list price

per sq. ft. of sold homes has remained almost constant during that period. The most active ZIP codes for sales in this price range were Buckeye 85326, Maricopa 85138, San Tan Valley 85143, Phoenix 85041, Phoenix 85037, Tolleson 85353, Laveen 85339, Phoenix 85043, Peoria 85345 and El Mirage 85335.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	7,604	Down 23.4%
Current Demand	Pending Sales	4,143	Up 3.0%
Recent Demand	Sales per Month	3,016	Up 15.0%
Sales Pricing	Avg. Price per Sq. Ft.	\$70.10	Up 1.5%
Active Pricing	Avg. Price per Sq. Ft.	\$73.38	Down 0.5%

Summary: Supply down and demand fading slightly. Pricing remains very stable.

Having peaked in October, supply has fallen another 6.8% in the past month and is down 23.4% when compared with March. However the rate of decline is easing a little. Lender owned active listings are down by nearly 30% since March while short sale listings are down 19% and normal listings are down over 26%.

Demand has faded a little, but this is in line with normal seasonal patterns. Pending listings are down 5.7% between May and June while monthly sales are up 0.6%. Months' supply dropped again to 2.5 months. When measured against annual sales (30,005), inventory fell from 98 to 92 days over the same period. This inventory level is now below average for a healthy market and competition among buyers is strong.

Between May 26 and June 26 REOs dropped to 38% of monthly sales while normal listings also fell to 38%. Short sales and pre-foreclosures increased from 21% to 24% of sales. The market distress index deteriorated from 62.4 to 63.4 because short sales gained market share in both active and closed listings. However the contract ratio advanced from 124.0 to 131.7 and this is partly because a large proportion of the active short sales already have a contract awaiting lender approval. About one third of all active listings have a contingent contract and this is the highest proportion we have seen.

Average sales pricing rose by 0.7% during June to \$70.10 per sq. ft. However the average price for pending sales fell back from \$69.60 to \$69.22, the second lowest level recorded for the last year. Average sales price per sq. ft. in this sector is below the low-point of \$70.86 set in March 2009 but has remained in the range \$68.21 to \$70.67 over the last 11 months. Active listing pricing is almost exactly the same as last month at \$73.38. The overall picture is that pricing has barely moved for many months now. With the tightening of the supply and an increase in demand, the outlook for this sector remains very positive, but negative sentiment is still keeping a restraint on increases in sales pricing.

The most active ZIP codes for sales in this price range were Gilbert 85296, Surprise 85379, Chandler 85225, Phoenix 85086, Laveen 85339, Maricopa 85138, San Tan Valley 85142, and Goodyear 85338.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	4,977	Down 17.0%
Current Demand	Pending Sales	1,699	Down 7.0%
Recent Demand	Sales per Month	1,478	Up 20.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$101.48	Down 1.1%
Active Pricing	Avg. Price per Sq. Ft.	\$109.13	Down 2.4%

Summary: Buying interest falters a little although supply continues to decline. Pricing remains very stable.

The supply of single family homes priced between \$200,000 and \$400,000 dropped by another 4.1% between May 26 and June 26, and is now down 17.0% over the last three months and 29.2% over the last year. However the fall in the last month was less than half of the prior month so the decline is definitely slowing. Over the last month REO supply actually rose by 2.4%, reversing an 8 month trend, while short sales and pre-foreclosures fell by 3.0% and normal listings fell 5.5%.

Although sales were up 8.4% month to month, pending sales dropped sharply between May 26 and June 26 and are now 7% below last quarter and 14.5% below last year. Monthly sales are 12% lower than at the same time last year as buying interest now seems to be more heavily focused on properties below \$100,000. Nevertheless, months' supply fell from 3.8 to 3.4. The annual sales rate fell to 14,186, but the larger fall in active listings meant that when measured on an annual sales basis, inventory continued to decline from 132 to 128 days, which is still at the lower end of the "normal" range.

Unlike the lower price ranges, short sales lost market share falling from 21% to 19% of sales. Normal sales reached 59% - the highest percentage we have recorded since 2008. The market distress index was essentially unchanged at 40.7 and the contract ratio fell back from 75.3 to 72.6 a discouraging sign compared with the lower price ranges.

Average sales pricing advanced 1.3% over the last month to \$101.48 per sq. ft. From August 2010 onwards sales pricing has fallen in the range \$99.50 to \$103 and we are still smack in the middle of this stabilized range. List prices for active listings are lower at \$109.13 per sq. ft. while the average list price of pending sales dropped back again to \$101.77 per sq. ft., a similar level to the past 11 months.

This sector remains stable but the decline in demand and the unexpected drop in the contract ratio change our outlook to neutral from positive. The most active ZIP codes for sales in this price range were Chandler 85249, Phoenix 85086, Scottsdale 85254, Peoria 85383, Glendale 85308, Chandler 85286, Gilbert 85298, Cave Creek 85331 and Sun Lakes 85248.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	2,055	Down 20.3%
Current Demand	Pending Sales	457	Down 7.7%
Recent Demand	Sales per Month	399	Up 30.8%
Sales Pricing	Avg. Price per Sq. Ft.	\$150.31	Up 2.1%
Active Pricing	Avg. Price per Sq. Ft.	\$167.11	Down 2.3%

Summary: Supply falling but demand continues to weaken. Nevertheless sales prices remain on an upward trend.

Single family homes between \$400,000 and \$800,000 have experienced a 6.4% fall in active listings in the last month, 20.3% in the last quarter and 27.9% in the last year. The sales volume strengthened slightly in June, with monthly sales up 7.0% compared with April and up 30.8% compared with March. However pending sales fell by 10% over the last month and are 11.9% below last year. So although the supply situation continues to improved, the improvement is decelerating and demand is weakening.

Months' supply now stands at 5.2 months compared with 5.9 on May 26. The annual sales rate fell slightly to 3,830 but inventory dropped to 196 days when measured on an annual sales basis. Both measures of inventory are the lowest we have seen for many years for this price range.

REO supply didn't change during June at 84 homes, but this is down 10.6% over the last 3 months. Active short sales and pre-foreclosures fell by 3.0% while normal listings fell by a more impressive 7.7%. REOs comprised 12% of monthly sales, a slight increase over May. Short sales took their same 18% market share while normal sales fell slightly to 69%. As a result of

these changes the market distress index bounced back up to 28.2. Together with the contract ratio fading from 45.0 to 44.8 these were a little disappointing after the strong figures in May.

Average sales pricing for this price range rose 0.9% compared to May to \$150.31 per sq. ft. – higher than 9 of the last 10 months. The long term annual average sales price per square foot (\$146.284) is now significantly lower than the monthly average, a strong signal that prices are now on a long term gentle upward trend for this sector. The average price for pending sales rose sharply to \$156.38 per sq. ft. higher than at any time since April 2010. However, and in contrast, active list pricing fell sharply from \$170.56 to \$167.11 per sq. ft. ft.

With prices gently rising and supply lower than at any time in the last several years, this sector remains in long slow recovery mode. However the decline in demand, although not unexpected for the hot summer season, is taking a slight edge off the market improvements. The short term outlook for this sector remains just on the positive side of neutral.

The most active ZIP codes for sales in this price range were Scottsdale 85255, Scottsdale 85259, Scottsdale 85266, Scottsdale 85262, Cave Creek 85331, Scottsdale 85258, Phoenix 85086 and Chandler 85249.

5. Homes over \$800,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	1,557	Down 18.9%
Current Demand	Pending Sales	144	Down 14.8%
Recent Demand	Sales per Month	148	Up 23.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$261.27	Up 8.0%
Active Pricing	Avg. Price per Sq. Ft.	\$357.84	Flat

Summary: Demand weakens for the summer months but supply is down again. Sales prices continue to climb.

After two months with nothing but green figures in the table above, we see the first sign of the spring season turning to summer as pending sales start to fade. The good news is that the supply of homes above \$800,000 fell 8.5% in one month, 18.9% over three months and 29.2% since June 2010. These are significant declines and the supply of luxury homes is now falling faster than the middle ranges. Meanwhile June sales numbered the same as May and are up 23.3% compared with March.

However the not-so-good news is that pending sales are down by 22.6% compared with last month and 10% below last year. The fall in the number of active listings means that months’ supply is down again to 10.5 and for luxury homes this is a relatively low figure. The annual sales rate is 1,300, so when measured on an annual sales basis, inventory stands at 437 days compared with 553 days a year ago.

Active REOs rose 18.4% from 38 to 45 over the last month but these represent only 2.9% of total active listings. There were 20 REO sales which represents 14% of the closed listings. The REO sales price average of \$183.66 per sq. ft. was the second lowest of the last 12 months. Short sales and pre-foreclosures closed were less numerous in June with only 15 closed, and at 10% of sales the lowest percentage since April 2009. However, their average of \$236.16 per sq. ft. was the third highest of the last 12 months. Active short sales and pre-foreclosures number only 147, which is 9.4% of active inventory. Normal sales pricing averaged \$280.65 per sq. ft. for 113 sales, the highest total in over three years. Normal sales constituted 76% of the closings.

The market distress index rose to 18.0 from 17.2, and the contract ratio faded slightly from 18.1 to 17.4, both negative signals. Average active listing pricing fell 1.0% to \$357.84 but is still much higher than achieved sales pricing at \$261.27 per sq. ft. The monthly average sales price per sq. ft. was up 2.3% compared with May but the small number of sales in this

price range often leads to considerable fluctuation from month to month. This is the highest price level since December and higher than 19 out of the last 22 months. The annual average price per sq. ft. does not fluctuate wildly and moved a little higher to hit \$249.38 in June. The fact that the monthly average is now significantly higher than the annual average is a positive signal that average pricing is on a firm upward trend.

The fall off in demand is not unexpected for the start of the summer season and though slightly disappointing, it is encouraging that supply continues to decline at a healthy rate. 88% of the supply is NOT distressed and we see pricing continuing to trend upwards. The short term outlook for this sector remains positive. The most active ZIP codes for sales in this price range were Scottsdale 85255, Paradise Valley 85253, Scottsdale 85262, Scottsdale 85259, Fountain Hills 85268 and Scottsdale 85266. There were 113 sales among these six ZIP codes and 35 elsewhere.

Forecast

Last month we forecast that sales prices would stay in the range \$82 to \$86 per sq. ft. and this is exactly what they did. The actual monthly average sales pricing for single family detached homes across Greater Phoenix was \$83.95 per sq. ft. on June 26. We still see January and February 2011 as forming the second low point of a W-shaped double dip.

The average \$/SF for pending sales is now between \$79 and \$81 because pending sales now include far fewer transactions from price levels over \$200,000. This suggests a possible move lower for the overall average sales \$/SF over the next four weeks. Nevertheless we expect prices to remain in the range between \$80 and \$85 per sq. ft. for the next month.

Explanations of Terms Used

Active Listings	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.
Annual Sales	Listings successfully closed on ARMLS during the twelve months that ended on the last day of the month shown.
Contract Ratio	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.
Days Inventory	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.
Foreclosure Notice	The first step in a foreclosure, officially known as a Notice of Trustee Sale.
Market Distress Index	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.
Monthly Sales	Listings successfully closed during the month shown.
Months' Supply	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.
Normal Sales	Sales which were not lender owned, short sales or pre-foreclosures among the monthly sales.
Pending Foreclosure	A home with an outstanding foreclosure notice that has not yet had its trustee sale or been cancelled.
Pending Sales	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.
Sales per Month	The number of listings successfully closed during the calendar month. Also referred to as the Monthly Sales Rate.
Sales per Year	Listings successfully closed on ARMLS during the twelve months that ended on the last day of the month shown.
Short Sales	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.
REO	Lender owned properties (Real Estate Owned) among the monthly sales
Trustee Sales	Completed foreclosures. The final step in a foreclosure is when the trustee sale occurs.
Sales Price per Sq. Ft.	Average pricing expressed in dollars per square foot. Less volatile than median price or average price.

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