

# **The Cromford Report™ - Monthly Market Review – Nov 28, 2011**

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

### **Market Headlines**

- In every price range, sales prices in \$/SF are now higher than a year ago.
- Inventory is still falling below \$200,000 and constraining sales volumes.
- Above \$200,000, supply is rising and demand remains relatively weak.
- After a noticeable weak patch during the summer, prices have regained strength.
- Lender-owned inventory is falling fast, especially at the lower price levels.
- Short sales are overtaking foreclosures as the primary mechanism to resolve mortgage debt problems.

### **Overview**

November is normally a relatively weak month for residential real estate demand and this year is no exception. However, inventory is not building the way it normally does at this time of year. In fact for homes under \$200,000 inventory is still falling from already low levels and is becoming a major constraint on the market below \$100,000. For homes over \$200,000 there has been a distinct rise in inventory over the last 3 months. You might expect this to weaken prices, but in fact pricing has been remarkably stable for all ranges over \$200,000. Below \$200,000 the low supply is creating strong upward price pressure and sales pricing is now at its highest since the summer of 2010. Demand from owner occupiers remains relatively weak due to the difficult financing climate, but landlords and other investors are quickly snapping up a large part of whatever comes onto the market and so sellers, especially lenders, are raising their prices quickly.

The supply from foreclosures continues to fall very fast and short sales are becoming a more important part of the picture. Lenders are receiving far fewer homes into REO inventory as a much larger percentage of the trustee sales result in a sale to a third party.

It may be hard to find anyone to believe it, but the fact is that average price per sq. ft. is now higher than in November 2010 at every price range. Even the weakest range, \$200,000 to \$400,000, is up by 0.3% over the year. Currently the strongest recent movement is for the lowest price ranges, but even at the higher price points we can see very stable pricing has

persisted for over a year now. Yet even appraisers, who are well connected to market price data, still routinely refer to the market as “declining”. It takes a long time for the facts to get absorbed into the public sentiment.

**Foreclosures**

New notices of foreclosure have continued to be filed at similar levels for the last six months, around 4,500 a month. However an increasing percentage of these notices now result in a successful short sale, a loan adjustment or a purchase by a third party at trustee sale. As a result banks are receiving far fewer homes as REOs and this area of the market is seeing far lower transaction volumes than in the last 3 years.

**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 November 26 numbers with those of one, three and twelve months earlier – October 26, 2011, August 26, 2011 and November 26, 2010:

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	5,031	Down 6.8%	Down 16.8%	Down 54.8%
Current Demand	Pending Sales	3,784	Down 7.0%	Down 16.1%	Up 12.5%
Recent Demand	Sales per Month	2,372	Down 10.3%	Down 25.1%	Up 13.0%
Sales Pricing	Avg. Price per Sq. Ft.	\$45.11	Up 1.2%	Up 4.6%	Up 2.7%
Active Pricing	Avg. Price per Sq. Ft.	\$46.50	Up 0.6%	Up 1.0%	Down 1.2%

**Summary: Supply getting tight and now constraining the market. Prices are rising and are now 2.7% higher than last year.**

The sales count in this price range fell over 10% between October and November but is still 13% higher than November 2010. Pending sales are down by 7% compared with last month and are 12.5% higher than last year. These demand indicators are being severely hampered by a shortage of supply. In fact this price range showed by far the largest reduction in supply, down 6.8% in the last month and now nearly 55% below this time last year. Active listings without a contingent contract are down over 75% compared with November last year

Average sales price per sq. ft. for November was up 1.2% from October and is at the highest level since August 2010. We can see that the low point for pricing in this sector was February 2011 at \$41.70 and we are now 8.2% higher than this baseline. Upward price pressure remains strong, fueled by an inflow of cash from landlords purchasing homes to rent and it now appears very unlikely we will see prices that low again. This upward price pressure is particularly strong in areas most favored by landlords including El Mirage, Tolleson, Queen Creek and Maricopa (city). Pending sales average \$43.88 per sq. ft., a little lower than last month but 2.3% above the August reading.

This supply of distressed properties continues to shift away from REOs which are down another 23% in the last month alone and down 81% compared with November 2010. On November 26 we had just 658 active REOs compared with 3,710 on January 26. Active short sales and pre-foreclosures were also down - 5.1% in the last month and down 44% compared with a year ago. They now comprise 67% of active listings in this price range. Normal listings were up 1.3% in the last month and down 41% compared with November 2010.

REOs now constitute 13.1% of the supply, the lowest percentage for many years. However they sell so fast that they still comprise 46% of the monthly sales in this sector. Normal sales were 17% of the market in November while short sales and pre-foreclosures grew to a 37% market share, by far the highest ever recorded.

Average pricing per sq. ft. for closed REOs in this price range is up to \$44.23, the highest recorded since August 2010. Short sale and pre-foreclosure pricing did not change much, coming in at \$43.06 per sq. ft.. Note that the pricing per sq. ft. for REOs is now noticeably higher than short sales. Normal pricing has increased to \$52.22 per sq. ft., the highest since November 2010.

Inventory now stands at only 55 days using the annual sales rate (now up to 33,621). This is another significant drop compared with last month when it stood at 59 days. Using the monthly sales rate we calculate supply at 2.1 months. The contract ratio set another record at 282.8, mostly due to the large number of AWC (active with contingent contract) listings, which now comprise over 54% of active listings. The distress index for this price range improved from 83.2 to 81.4, which although still high is the lowest level in several years.

Average list pricing rose in September reaching \$46.50, up 0.6% from last month. The average \$/SF asked for REOs (\$45.93) exceeds that for short sales (\$44.56) while normal sales are priced considerably higher at \$54.55 per sq. ft. on average. With demand very strong and supply still going down, the outlook for the market below \$100,000 remains very positive.

The most active areas for sales in this price range were in the west valley and Pinal County with the top 8 ZIP codes being Maricopa 85138, San Tan Valley 85143, Phoenix 85041, Buckeye 85326, El Mirage 85335, Phoenix 85037 and Peoria 85345.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	6,866	Down 1.3%	Down 0.2%	Down 47.2%
Current Demand	Pending Sales	3,507	Down 5.8%	Down 10.3%	Up 2.2%
Recent Demand	Sales per Month	2,517	Up 0.2%	Down 6.2%	Up 2.2%
Sales Pricing	Avg. Price per Sq. Ft.	\$71.31	Up 1.3%	Up 3.1%	Up 1.4%
Active Pricing	Avg. Price per Sq. Ft.	\$74.92	Up 0.5%	Up 1.6%	Up 1.2%

### **Summary: Supply lower and demand holding. Pricing is on a firm upward trend.**

Supply decreased by 1.3% over the past month and is down over 47% compared with this time last year. Lender owned active listings are down by 72% over the last 12 months while short sale listings are down over 43% and normal listings are down 36%. However normal active listings are up 3.6% over the last month. Short sales and pre-foreclosures now comprise 48.7% of the active listings and REOs are only 11.4% - their lowest share for several years.

Sales volume was pretty flat between October and November, but sales are still up 2.2% compared with last year. Pending listings declined 5.8% though these too are up 2.2% compared with last year. Months of supply declined slightly to 2.7 months. When measured against annual sales (31,374), inventory also declined to 80 days. This inventory level is well below normal for a healthy market and competition among buyers remains very strong in this price range, particularly below \$150,000.

Between October 26 and November 26 REOs were 29% of monthly sales, by far the lowest share for several years, while normal listings were 43%. Short sales and pre-foreclosures took 28% of the market, a record high. The market distress index improved to 58.4 but the contract ratio declined from 140.1 to 137.6 primarily due to the lower pending listings.

Average sales price \$/SF is moving upwards now, gaining 1.3% over the last month and up 3.1% since August. At \$71.31 November's \$/SF is the highest in 17 months. The higher pricing is reflected in the active \$/SF which gained 0.5% to \$74.92, the highest in 15 months. Pending \$/SF was also up by 0.7% to its highest level in 17 months. Homes in this price range are definitely getting more expensive as the lender owned supply starts to dry up. The outlook for this sector is positive.

The most active ZIP codes for sales in this price range were San Tan Valley 85143, Queen Creek 85142, Laveen 85339, Chandler 85225, Surprise 85379, Gilbert 85296 and Peoria 85382.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	5,221	Up 3.4%	Up 10.2%	Down 26.6%
Current Demand	Pending Sales	1,541	Down 0.3%	Down 7.6%	Down 0.2%
Recent Demand	Sales per Month	1,128	Down 1.5%	Down 4.2%	Down 2.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$102.03	Up 1.3%	Up 0.7%	Up 0.3%
Active Pricing	Avg. Price per Sq. Ft.	\$110.76	Up 0.7%	Up 2.8%	Down 1.1%

**Summary: Supply is higher and demand is still unimpressive. Nevertheless, pricing remains extremely stable.**

The supply of single family homes priced between \$200,000 and \$400,000 increased again last month and is now up 10.2% over the last three months. However it is down 26.6% over the last year. Over the last month REO supply fell by 14.3%, while short sales and pre-foreclosures rose by 3.0% and normal listings increased by 6.1%.

Sales were down 1.5% month to month while pending sales dropped 0.3% between October 26 and November 26 and are now 7.6% below last quarter and very close to the same level as last year at this time. Monthly sales are now 2.3% below the same time last year. We can see that the demand for this price range is quite weak compared with the ranges under \$200,000. Months of supply rose from 4.4 to 4.6 and with the annual sales rate at 14,365, days inventory increased from 128 to 133 days, the low point being August 2011 at 121 days.

Short sales were 23% of sales, while normal sales took 58% and lender owned sales dropped to 20%. The market distress index improved from 42.2 to 38.9 and the contract ratio declined again from 62.1 to 59.4. Average sales pricing moved higher by 1.3% over the last month to reach \$102.03 per sq. ft. Average sales pricing has stayed between the narrow range of \$99.44 to \$102.59 for the last 16 months. List prices for active listings are again higher at \$110.76 per sq. ft. while the average list price of pending sales fell back slightly to \$100.96 per sq. ft. The annual average sales price per sq. ft. has stayed between \$104.25 and \$104.32 for 5 months now, unusually stable.

Demand weakening, supply climbing and the deterioration of the contract ratio are all negative signals. However the falling distress index is positive and prices seem very resistant to any downward movement. Our outlook for this sector is now neutral. The most active ZIP codes for sales in this price range were Peoria 85383, Scottsdale 85254, Cave Creek 85331, Chandler 85249, Phoenix 85086, Chandler 85286, Queen Creek 85142, Sun Lakes 85248 and Phoenix 85048.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	2,177	Up 1.4%	Up 14.3%	Down 21.8%
Current Demand	Pending Sales	378	Up 6.8%	Down 1.0%	Down 8.0%
Recent Demand	Sales per Month	294	Up 12.6%	Down 7.0%	Down 9.0%
Sales Pricing	Avg. Price per Sq. Ft.	\$149.32	Up 2.1%	Flat	Up 3.7%
Active Pricing	Avg. Price per Sq. Ft.	\$168.36	Up 0.1%	Up 1.5%	Down 0.7%

**Summary: Supply is up only slightly and demand is stronger. Prices regaining ground lost in August and September.**

The growth in active single family homes between \$400,000 and \$800,000 subsided to just 1.4% over the last month but they are still up 14.3% over the last 3 months. This is still down 21.8% compared with this time last year, but the trend is still in the wrong direction for sellers. The sales volume gained some strength, with monthly sales up 12.6% compared with

October but this is still down 9% compared with November 2010. Pending sales grew by 6.8% over the last month and are now 8% below last year, which though not impressive is much improved from the dismal 22% below we saw in October.

Months of supply now stands at 7.4 months, down from 8.2 last month. The annual sales rate is slowing at 3,831 so inventory is back up to 207 days when measured on an annual sales basis. The good news is that the supply contains fewer distressed properties. REO supply decreased nearly 20% during November, while short sales and pre-foreclosures declined 2.6% and normal listings increased by 3.3% and now represent 80% of the supply. Normal sales maintained a 68% market while REOs also held steady at 11% of sale. The market distress index fell to 26.0 while the contract ratio improved slightly to 32.9. Both of these are only small changes but at least they are in a positive direction.

Average sales pricing for this price range is flat over the last three months thanks to recovering 2.1% during November. Compared with November 2010 pricing is up by 3.7%. The average price for pending sales rose to \$149.68 per sq. ft. and active list pricing also edged upwards from \$168.14 to \$168.36 per sq. ft. It can be fairly claimed that the pricing picture shows general improvement. Reinforcing this claim is the annual average sales price per sq. ft., which at \$147.83 is the highest reading we have seen since October 2010. This is also almost the same as it was in October 2009. In fact the annual average sales \$/SF has remained within the tight range \$146 to \$149 for the last 27 months.

With demand improving a little and supply only slightly higher this price range has regained some strength over the last month. Encouraged by the pricing action, our outlook has changed from negative to slightly positive. The most active ZIP codes for sales in this price range were Scottsdale 85255, Scottsdale 85259, Scottsdale 85262, Scottsdale 85260, Scottsdale 85266, Scottsdale 85258 and Phoenix 85050.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	1,563	Up 3.6%	Up 12.4%	Down 22.7%
Current Demand	Pending Sales	110	Up 2.8%	Down 3.5%	Down 20.9%
Recent Demand	Sales per Month	88	Down 8.3%	Down 10.2%	Up 4.8%
Sales Pricing	Avg. Price per Sq. Ft.	\$241.22	Down 1.5%	Up 6.5%	Up 3.3%
Active Pricing	Avg. Price per Sq. Ft.	\$358.28	Up 0.4%	Up 0.9%	Down 1.0%

**Summary: Supply is growing while demand remains below par. However prices remain remarkably stable.**

The level of demand remains a concern in this price range. Although pending listings improved slightly from last month they are still much lower than this time last year. Monthly sales counts are not impressive either, although here we do see a slightly higher number than this time last year. Supply is still rising, up 3.6% over the last month although still 22.7% below last year. Months of supply, which is based on the monthly sales rate, is at 17.8. Inventory based on the annual sales rate has increased to 434 partly because the annual sales rate is drifting lower.

So both supply and demand are moving in the wrong direction.

The better news is that lender owned inventory is down. Active REOs in this price range number only 31, down 26.2% from last month and now just 2% of total active listings. There were 6 REO sales and these realized a record high average \$/SF of \$270.15 (record for lender owned homes that is). The 19 short sales and pre-foreclosures came in at \$198.74 per sq. ft. while 63 normal sales, which were 72% of the total averaged \$253.25 per sq. ft. Active short sales and pre-foreclosures were up 4.5% at 138, which is 8.8% of active inventory. Normal active listings also rose 4.5%.

The market distress index rebounded to 19.6 due to increased short sale activity while the contract ratio faded a little to 12.6, so neither of these key measures gave us good news. Average active listing pricing gained 0.4% to \$358.28 over the

last month but the monthly average sales price per sq. ft. was down 1.5% compared with October. This needs to be put into context - it is still 3.3% higher than November 2010. The annual average price per sq. ft. is remarkably stable and moved just a little higher again to hit \$247.98 in November. Pending sales pricing is 1.0% lower than last month and suggests we may possibly see slightly weaker sales pricing in December. The overall pricing picture remains very stable.

In the short term our outlook for this sector remains slightly negative because of the low number of pending sales and increasing supply. The stable pricing is reassuring and the real test will come in February as the peak buying season gets under way. The most active ZIP codes for sales in this price range were Paradise Valley 85253, Scottsdale 85255 and Scottsdale 85259. Scottsdale 85262 was unusually slow with only 5 sales.

### **Forecast**

Last month we forecast that sales prices would rise slightly to the range \$80 to \$84 per sq. ft. and that is what happened, with average pricing coming in at \$83.25 per sq. ft. The average \$/SF for pending sales has moved up a little into the range between \$79 and \$81 and this set of homes under contract still includes a relatively large number of HUD homes and short sales which take longer to close than the more expensive normal sales. We anticipate price increases at the lower end of the market coupled with stable pricing in the higher price ranges. Declining market share for REOs also has a favorable effect on pricing. We therefore expect overall average sales prices to be in the range between \$82 and \$86 per sq. ft. over the next month.

### **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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