

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

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Greater Phoenix – Single Family Detached

Market Headlines

- Except above \$800,000, sales prices in \$/SF are now higher than a year ago.
- Inventory is falling again for all price ranges.
- Above \$400,000 demand remains relatively weak.
- Lender-owned inventory is still falling and REOs are losing market share in sales.
- Active short sales are fewer in number, with normal listings gaining market share.

Overview

Between November and December we saw a change in direction for inventory and supply is once again on a downward trend for all price ranges. The strongest decline in supply is for homes under \$100,000. Sales rates look better between \$200,000 and \$400,000 while above \$400,000 demand is still a problem. Price per sq. ft. below \$800,000 is up compared with last year. We cannot say the same about prices above \$800,000 but this is not because of weaker pricing in December 2011, but instead because December 2010 was an exceptionally strong month for luxury home pricing. Demand from owner occupiers remains subdued due to strict underwriting standards, but cash buyers including landlords and other investors are quickly snapping up a large part of whatever comes onto the market. Lenders and normal sellers are raising their asking prices. Short sales are showing the weakest price trends.

The supply from foreclosures continues to fall with more pending foreclosures getting resolved by short sales. Lenders are receiving fewer homes into REO inventory as a higher percentage of trustee sales result in a sale to a third party.

Despite public perception to the contrary, price per sq. ft. has appreciated between December 2010 and December 2011 except for the range over \$800,000. The strongest recent movement is for the price range below \$100,000, where price per sq. ft. hit bottom in February and is now up nearly 7% over the last 12 months. With supply on a downward trend again we

anticipate that the peak spring season will find most buyers frustrated by a lack of choice and fierce competition from other buyers.

Foreclosures

New notices of foreclosure were filed at similar levels between April and November with a slight bump from Bank of America in August. However December has seen a distinct drop off. An increasing percentage of these notices now result in a successful short sale, a loan adjustment or a purchase by a third party. As a result banks are receiving far fewer homes as REOs. Pending foreclosure counts have started to fall quickly again and are now over 60% below the peak levels of 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 December 26 numbers with those of one, three and twelve months earlier – November 26, 2011, September 26, 2011 and December 26, 2010:

1. Homes under \$100,000

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	4,666	Down 7.3%	Down 17.5%	Down 58.9%
Current Demand	Pending Sales	3,414	Down 9.8%	Down 22.5%	Up 3.0%
Recent Demand	Sales per Month	2,162	Down 11.6%	Down 14.0%	Down 1.8%
Sales Pricing	Avg. Price per Sq. Ft.	\$45.57	Up 1.6%	Up 5.1%	Up 6.9%
Active Pricing	Avg. Price per Sq. Ft.	\$46.51	Flat	Up 0.7%	Down 0.3%

Summary: Low supply conditions heavily influencing the market. Sales prices are now 6.9% higher than last year.

The sales count in this price range fell nearly 12% between November and December and is now only 1.8% higher than December 2010. Pending sales are down 9.8% compared with last month but are still 3.0% higher than last year. These demand indicators look poor compared with earlier in the year, but they are being severely constrained by the lack of supply. This price range showed the largest reduction in supply, down 7.3% in the last month and now nearly 59% below this time last year. Active listings without a contingent contract are down over 77% compared with December last year

Average sales price per sq. ft. for December was up 1.6% from October and is at the highest level since August 2010. The low point for pricing in this sector was February 2011 at \$41.70 and we are now 9.3% 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. Pending sales average \$44.08 per sq. ft., 0.5% higher than last month and moving up from the low point of June 2011.

This supply of distressed properties continues to fall, with REOs down another 5.5% in the last month alone and down a remarkable 83% compared with December 2010. On December 26 we had just 622 active REOs compared with 3,710 on January 26. Active short sales and pre-foreclosures were down by a greater percentage - 8.3% in the last month and down over 49% compared with a year ago. They now comprise 66% of active listings in this price range. Normal listings were down 4.7% in the last month and down 43% compared with December 2010.

REOs now constitute 13.3% of the supply, but they sell so fast that they still comprise 40% of the monthly sales in this sector. However this is the lowest percentage since 2007. Normal sales were 22% of the market in November, their highest percentage since March 2008 while short sales and pre-foreclosures grew to a 39% market share, their highest recorded.

Average pricing per sq. ft. for closed REOs in this price range is up to \$44.62, the highest recorded since July 2010. Short sale and pre-foreclosure pricing moved up to \$43.26 per sq. ft. Note that the pricing per sq. ft. for REOs is now noticeably higher than short sales. Normal sales pricing for December was \$51.93 per sq. ft., the highest since November 2010.

Inventory now stands at only 51 days using the annual sales rate (down slightly at 33,546). This is another significant drop compared with last month when it stood at 55 days. Using the monthly sales rate we calculate supply at 2.2 months. The contract ratio fell back to 269.1. This is still an abnormally high measure, mostly due to the large number of AWC (active with contingent contract) listings, which now comprise over 53% of active listings. The distress index for this price range improved from 81.3 to 79.0, which although still high is the lowest level in three years.

Average list pricing stayed flat in December reaching \$46.51, up just 1c from last month. The average \$/SF asked for REOs (\$45.57) exceeds that for short sales (\$44.58) while normal sales are priced considerably higher at \$54.58 per sq. ft. on average. The low and still falling supply means that even with a slight lull in demand, the outlook for the market below \$100,000 remains strongly positive.

The most active areas for sales in this price range were in the west valley and Pinal County with the top ZIP codes being Phoenix 85041, Peoria 85345, Buckeye 85326, Phoenix 85033, San Tan Valley 85143, Maricopa 85138, Tolleson 85353 and El Mirage 85335.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	6,609	Down 3.7%	Down 3.0%	Down 46.6
Current Demand	Pending Sales	3,327	Down 5.1%	Down 13.9%	Up 6.0%
Recent Demand	Sales per Month	2,517	Down 9.4%	Down 6.2%	Down 1.1%
Sales Pricing	Avg. Price per Sq. Ft.	\$71.43	Up 0.3%	Up 0.9%	Up 3.1%
Active Pricing	Avg. Price per Sq. Ft.	\$75.11	Up 0.2%	Up 1.4%	Up 2.0%

Summary: Supply and demand both move lower. Pricing is still moving up.

Supply decreased by 3.7% over the past month and is down nearly 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 by 44% and normal listings are down 34%. Normal active listings peaked at 2,733 last month and are now down 1.5% since then. Short sales and pre-foreclosures now comprise 47.8% of the active listings and REOs hold steady at 11.4%.

Sales volume dropped 9.4% between November and December and the monthly sales rate is now down 1.1% compared with last year. Pending listings declined 5.1% last month though they are up 6.0% compared with last year. Months of supply rose slightly to 2.9 months, but when measured against annual sales (31,346) inventory declined to 77 days. This inventory level is tight and well below normal for a healthy market and competition among buyers remains very strong in this price range, particularly below \$150,000.

Between November 26 and December 26, REOs were 26% of monthly sales, the lowest share since 2007, while normal listings were 45%, their highest share since March 2008. Short sales and pre-foreclosures took 29% of the market, setting another record high. The market distress index improved to 57.2 but the contract ratio declined from 137.6 to 134.1 primarily due to the fall in pending listings.

Average sales price \$/SF is moving gently upwards now, gaining 0.3% per month over the last 3 months and up 3.1% since last year at this time. At \$71.43 December's \$/SF is the highest since June 2010. The higher pricing trend is also reflected in the active \$/SF which gained 0.2% to \$75.11, the highest since August 2010. Pending \$/SF was almost flat over the month,

falling 3c per sq. ft. Pricing is moving more slowly in this price range than for homes under \$100,000, but with only 756 REOs active instead of the 2,682 we had last December, the outlook for this sector is still positive. The most active ZIP codes for sales in this price range were Surprise 85379, Goodyear 85338, San Tan Valley 85143, Queen Creek 85142, Laveen 85339, Glendale 85308 and Maricopa 85138.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	4,947	Down 5.2%	Up 2.1%	Down 26.4%
Current Demand	Pending Sales	1,467	Down 4.8%	Down 9.3%	Up 4.7%
Recent Demand	Sales per Month	1,145	Up 1.3%	Up 1.0%	Up 7.3%
Sales Pricing	Avg. Price per Sq. Ft.	\$101.24	Down 0.7%	Up 0.8%	Up 0.3%
Active Pricing	Avg. Price per Sq. Ft.	\$111.24	Up 0.4%	Up 2.5%	Down 0.3%

Summary: Supply has fallen and sales are perking up. Pricing remains extremely stable.

The supply of single family homes priced between \$200,000 and \$400,000 changed direction again last month and is now down 5.2% over the last month. It is down 26.4% over the last year, which is significant though not as impressive as for the lower price ranges. Over the last month REO supply fell by 6.5%, while short sales and pre-foreclosures fell by 7.5% and normal listings dropped by 4.1%.

Sales were down 1.3% month to month while pending sales dropped 4.8% between November 26 and December 26 and are now 9.3% below last quarter but 4.7% ahead of December 2010. Monthly sales are now 7.3% above the same time last year. We can see that the demand for this price range is regaining a little strength. Months of supply dropped from 4.6 to 4.3 and with the annual sales rate up to 14,457, days of inventory decreased from 133 to 125 days.

Short sales were 22% of sales, while normal sales took 63%, their highest share since August 2008. Lender owned sales dropped to 16%, the lowest share since January 2008. The market distress index improved from 39.6 to 35.9 and the contract ratio inched up from 59.4 to 59.7. Average sales pricing fell by 0.7% over the last month to reach \$101.24 per sq. ft. Average sales pricing has stayed between the range \$99.44 to \$102.59 for the last 17 months and last month we were still in the middle of this narrow range. Sellers seem to have gained optimism as list prices for active listings are again higher at \$111.24 per sq. ft. while the average list price of pending sales also moved up to \$101.20 per sq. ft. The annual average sales price per sq. ft. has stayed within the almost unbelievably tight range of \$100.86 to \$100.99 for 6 months now.

This sector has brightened up compared with last month with supply down and sales up year on year. We have firm pricing established so any movement now should be to the upside, especially with the decline in distress levels. Our outlook moves from neutral to positive. The most active ZIP codes for this price range were Chandler 85249, Peoria 85383, Phoenix 85086, Sun Lakes 85248, Cave Creek 85331, Gilbert 85298, Chandler 85286, Gilbert 85295, and Mesa 85207.

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

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	2,124	Down 2.4%	Up 6.8%	Down 20.8%
Current Demand	Pending Sales	343	Down 9.3%	Down 8.0%	Down 7.8%
Recent Demand	Sales per Month	274	Down 7.4%	Up 3.0%	Down 0.4%
Sales Pricing	Avg. Price per Sq. Ft.	\$147.17	Down 0.9%	Up 3.5%	Up 2.1%
Active Pricing	Avg. Price per Sq. Ft.	\$168.36	Up 0.5%	Up 1.0%	Down 0.1%

Summary: Supply is down but demand not very strong. Prices stable.

The growth in active single family homes between \$400,000 and \$800,000 has stopped and we are down 2.4% instead this month. They are still up 6.8% over the last 3 months but down 20.8% compared with this time last year. This is welcome news for sellers. The sales volume dropped back, with monthly sales down 7.4% compared with November but this is almost exactly the same level as last year. Pending sales fell by 9.3% over the last month and are now 7.8% below last year, which though not impressive is still much improved from the dismal 22% below we saw in October.

Months of supply now stands at 7.8 months, up from 7.4 last month. The annual sales rate is flat at 3,830 so inventory is back down to 202 days when measured on an annual sales basis. The good news is that the supply contains fewer distressed properties. REO supply decreased 8.7% during December, while short sales and pre-foreclosures declined 7.6% and normal listings decreased by 1.1% and now represent 81% of the supply. Normal sales maintained a 70% market share while REOs also reduced to 10% of sales. The market distress index fell to 24.5 while the contract ratio deteriorated to 30.3.

Average sales pricing for this price range is up 3.5% over the last three months thanks to recovering and compared with December 2010 pricing is up by 2.1%. The average price for pending sales declined to \$148.09 per sq. ft. but active list pricing jumped from \$168.36 to \$169.27 per sq. ft. Overall the pricing signals have more favorable signs than unfavorable and this is underscored by the annual average sales price per sq. ft., which at \$147.96 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 28 months.

With demand still unimpressive and supply down a little this price range has not really changed much in the last month. Our outlook remains slightly positive. The most active ZIP codes for sales in this price range were Scottsdale 85255, Scottsdale 85266, Scottsdale 85259, Scottsdale 85262, Fountain Hills 85268 and Phoenix 85086.

5. Homes over \$800,000

Market Information	Source	Reading	1 Month Trend	3 Month Trend	12 Month Trend
Supply	Active Listings	1,519	Down 2.8%	Up 8.0%	Down 23.5%
Current Demand	Pending Sales	110	Flat	Down 8.3%	Down 12.7%
Recent Demand	Sales per Month	95	Up 14.5%	Up 20.3%	Down 5.0%
Sales Pricing	Avg. Price per Sq. Ft.	\$247.00	Up 2.4%	Up 1.1%	Down 6.6%
Active Pricing	Avg. Price per Sq. Ft.	\$358.82	Up 0.2%	Up 0.8%	Down 0.9%

Summary: Supply has stopped growing but demand remains weak. Prices remain remarkably stable.

The level of demand remains a concern in this price range. Although pending listings were flat compared with last month they are still 12.7% lower than this time last year. Monthly sales counts are still relatively poor, down 5% from this time last year. However sales were up 14.5% from November which is an encouraging start. Supply is no longer rising, down 2.8% over the last month and 23.5% below last year. Months of supply, which is based on the monthly sales rate, is at 16.0. Inventory based on the annual sales rate has dropped back to 424 days.

Despite the less than stellar supply & demand situation, the levels of distress are falling. Lender owned inventory is down another 23% and is now 69% below last year at only 24 units. There were 11 REO sales and these realized an average \$/SF of \$202.49. The 13 short sales and pre-foreclosures came in at \$215.30 per sq. ft. while 71 normal sales, which were 75% of the total averaged \$261.65 per sq. ft. Active short sales and pre-foreclosures were down 2.9% at 134, which is 8.8% of active inventory. Normal active listings fell 2.4%.

The market distress index fell to 17.8 while the contract ratio improved from 12.6 to 13.2, both good news items. Average active listing pricing gained 0.2% to \$358.82 over the last month and the monthly average sales price per sq. ft. was up 2.4% compared with November. However it was 6.6% below the figure for December 2010 which was an exceptionally strong

month for sales pricing. The annual average price per sq. ft. remains stable and moved just a little lower to hit \$246.36 in December. Pending sales pricing has jumped 7.8% higher than last month and suggests we may see slightly stronger sales pricing in January. The overall pricing picture remains stable.

Our outlook for this sector moves from slightly negative to neutral. We like the reduction in distress but are worried by the low number of pending sales and greater supply than in the other price ranges. The most active ZIP codes for sales in this price range were Paradise Valley 85253, Scottsdale 85255, Scottsdale 85262, Scottsdale 85259 and Phoenix 85018. No other ZIP codes had more than 3 sales in this price range during the month.

Forecast

Last month we forecast that sales prices would rise significantly to the range \$82 to \$86 per sq. ft. and that is exactly what happened, with average pricing for single family detached homes coming in at \$85.16 per sq. ft. The average \$/SF for pending sales has moved up a little into the range between \$81 and \$83 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 further price increases at the lower end of the market and fairly stable pricing in the higher price ranges. REO market share is not falling as fast now as it has over the last few months. Taken together, these changes cause us to expect overall average sales prices to be in the range between \$84 and \$88 per sq. ft. over 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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