

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

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Greater Phoenix – Single Family Detached

Market Headlines

- A big contrast exists between the market under \$200,000 and the market above that figure
- Enthusiastic buying below \$100,000 is causing significant price rises as inventory becomes tight.
- Above \$200,000 the market continues to deteriorate slightly.
- Above \$400,000 there is potential for further price weakness unless demand improves.
- The overall average for sales pricing is now on an upward trend.
- REO inventory is falling fast, especially at the lower price levels.

Overview

The demand for homes between \$50,000 and \$150,000 continues to be particularly strong as investors, many from out of state, seize the profitable opportunity of becoming landlords. Demand from owner occupiers remains relatively weak due to the difficult financing climate. 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 larger percentage of the trustee sales result in a sale to a third party. The market below \$200,000 is now highly supply constrained.

Homes over \$400,000 are suffering from lower demand and the supply has started to creep back up. Demand for homes over \$3,000,000 remains very weak especially compared with this spring.

A clear and significant upward trend has developed in the price of homes below \$200,000, particularly those sold by lenders. In contrast the pricing for homes over \$400,000 is currently very stable but with the possibility of a bias to the downside. Because of the high sales volumes at the low end, price averages are very likely to push higher which may have a positive effect on sentiment.

The period from the second half of August to the first half of September represents a low point which looks likely to be seen in hindsight as our second market bottom, the first having been April 2009.

Foreclosures

New notices of foreclosure continue to be filed at similar levels for the last two months, though more than 50% down from the levels of 2009. We now have fewer homes pending foreclosure than at any time since the middle of 2008. However, more of these are finding solutions other than the trustee sale and the completed foreclosure counts are now falling fast.

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 October 26 numbers with those of three months earlier – July 26, 2011:

1. Homes under \$100,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	5,398	Down 17.8%
Current Demand	Pending Sales	4,069	Down 12.8%
Recent Demand	Sales per Month	2,479	Down 18.9%
Sales Pricing	Avg. Price per Sq. Ft.	\$44.61	Up 4.9%
Active Pricing	Avg. Price per Sq. Ft.	\$46.23	Up 1.4%

Summary: Supply getting tight and now constraining the market. Prices are rising and are now 2% higher than last year.

The sales count in this price range dipped 5% between September and October but is still over 40% higher than October 2010. Pending sales are down by nearly 8% compared with last month and are 28% higher than last year. The sales volume is now limited by the low supply. In fact this is the only price range where supply fell last month, down 4.6% and now 49% below this time last year. Active listings without a contingent contract are down as much as 71% compared with October last year.

Average sales price per sq. ft. for October was up 2.9% from September 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 \$41.71. This was almost the same level as the first bottom for this sector which was \$41.66 established in April 2009. Upward price pressure is strong, fueled by an inflow of cash from landlords purchasing homes to rent and it now appears unlikely we will see prices that cheap 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 \$44.02 per sq. ft., 1.7% higher than last month and the highest reading since December 2010. The current level is 3.5% above the low point set last June.

This supply of distressed properties continues to shift away from REOs which are down another 14% in the last month and down 73% compared with October 2010. Active short sales and pre-foreclosures were down 3.8% in the last month and down 39% compared with a year ago. They now comprise 66% of active listings in this price range. Normal listings were up 2.2% in the last month and down 40% compared with October 2010. Many of these normal listings are former foreclosed homes that have been flipped - acquired by investors then fixed up and offered for resale.

REOs constitute 15.9% of the supply, the lowest percentage for many years and they are clearly becoming scarce especially compared with last year. However they sell so fast that they still comprise 51% of the monthly sales in this sector. Normal sales were just 16% of the market in September while short sales and pre-foreclosures grew to a 33% market share, by far the highest ever recorded.

Average pricing per sq. ft. for closed REOs in this price range was \$43.62, the highest recorded since August 2010. Short sale and pre-foreclosure pricing rose last month to \$43.33. Note that the pricing per sq. ft. for REOs is now slightly higher than short sales. Normal pricing has also increased to \$50.96 per sq. ft.

Inventory now stands at only 59 days using the annual sales rate (now up to 33,216). This is another significant drop compared with last month when it stood at 64 days. Using the monthly sales rate we calculate supply at 2.2 months, the same as last month. The contract ratio set another record at 260.9, mostly due to the large number of AWC (active with contingent contract) listings, which now comprise over 51% of active listings. The distress index for this price range improved from 84.2 to 83.0, the lowest level in several years.

Average list pricing rose in September reaching \$46.23 virtually unchanged from last month. The average \$/SF asked for REOs (\$45.48) exceeds that for short sales (\$44.41) while normal sales are priced considerably higher at \$54.72 per sq. ft. on average. With demand very strong and supply still going down, the market below \$100,000 continues to show improvement and the outlook for this price range is 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 Buckeye 85326, San Tan Valley 85143, Phoenix 85041, Maricopa 85138, Phoenix 85037, Peoria 85345 and El Mirage 85335.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	6,954	Down 2.6%
Current Demand	Pending Sales	3,723	Down 2.4%
Recent Demand	Sales per Month	2,460	Down 13.5%
Sales Pricing	Avg. Price per Sq. Ft.	\$70.40	Up 0.8%
Active Pricing	Avg. Price per Sq. Ft.	\$74.53	Up 1.5%

Summary: Supply edges up and demand weakens. However pricing is very stable and now trending slightly higher.

Supply increased by 2.1% over the past month but is still down 2.6% compared with 3 months ago and 47% compared with this time last year. Lender owned active listings are down by 70% over the last 12 months while short sale listings are down 42% and normal listings are down 39%. However normal listings are up 7.1% over the last month. Short sales and pre-foreclosures now comprise just under half the active listings and REOs are only 12% their lowest share for several years.

Sales volume fell 2% between September and October, but sales are still up 12% compared with last year while pending sales are up 5%. Months of supply held steady at 2.8 months. When measured against annual sales (31,286), inventory also held steady at 81 days. This inventory level is now below average for a healthy market and competition among buyers is very strong in this price range, particularly below \$150,000.

Between September 26 and October 26 REOs were 31% of monthly sales, the lowest share for several years, while normal listings were 42%. Short sales and pre-foreclosures again took 27% of the market. The market distress index improved to 60.0 but the contract ratio declined from 149.7 to 140.1 due to a slight weakening in demand.

36.1% of all active listings have a contingent contract, again slightly lower than last month. Average sales pricing fell slightly by 0.4% during October to \$70.40 per sq. ft. but the average price for pending sales rose slightly from \$69.54 to \$70.21. The average sale price per sq. ft. in this sector has remained between \$68 and \$71 for the last 15 months.

Active listing pricing is slightly higher than last month at \$74.53, so combined with the small advance in pending sales pricing this tells us that pricing is still on a slight upward trend. The outlook for this sector remains mildly positive.

The most active ZIP codes for sales in this price range were San Tan Valley 85143, Surprise 85379, Maricopa 85138, Chandler 85225, Queen Creek 85142, Phoenix 85086, Gilbert 85296 and Laveen 85339.

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	5,049	Up 6.0%
Current Demand	Pending Sales	1,545	Down 3.4%
Recent Demand	Sales per Month	1,139	Down 9.5%
Sales Pricing	Avg. Price per Sq. Ft.	\$100.54	Up 1.2%
Active Pricing	Avg. Price per Sq. Ft.	\$109.98	Up 1.7%

Summary: Supply is higher and demand is fading. Nevertheless, pricing remains stable at the moment.

The supply of single family homes priced between \$200,000 and \$400,000 increased by 4.2% between September 26 and October 26 and is now up 6% over the last three months. However it is down 30.4% over the last year. Over the last month REO supply fell by 1.3%, short sales and pre-foreclosures fell by 4.8% and normal listings was where all the growth came, increasing by 9.8%.

Sales were down 2.3% month to month while pending sales dropped 4.5% between September 26 and October 26 and are now 3.4% below last quarter and 3.3% below last year at this time. On a more positive note, monthly sales are still 5.2% above the same time last year. Overall the demand for this price range is still quite weak compared with the ranges under \$200,000. Months of supply rose from 4.2 to 4.4 and with the annual sales rate at 14,393, days inventory increased from 123 to 128 days.

Short sales increased market share to 25% of sales. Normal sales dropped back to 53% while lender owned sales bumped back up to 22%, the highest percentage in 6 months. The market distress index increased to 42.1 and the contract ratio declined from 70.0 to 62.1, the lowest since March. Average sales pricing inched upwards by 0.3% over the last month to reach \$100.54 per sq. ft. Sales pricing has stayed between the narrow range \$99.41 to \$102.57 for the last 15 months. List prices for active listings are again higher at \$109.98 per sq. ft. while the average list price of pending sales fell back to \$101.02 per sq. ft. We still expect no major change in pricing over the coming month.

Demand is weaker, supply is growing, and the deterioration of the market distress index and contract ratios are negative signals. Hence our outlook for this sector remains somewhat negative. However prices have not been affected so far and have been remarkably stable for a long time. The most active ZIP codes for sales in this price range were Peoria 85383, Chandler 85249, Scottsdale 85254, Phoenix 85086, Cave Creek 85331, Glendale 85308, Mesa 85207 and Queen Creek 85142,

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

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	2,148	Up 12.1%
Current Demand	Pending Sales	354	Down 13.7%
Recent Demand	Sales per Month	259	Down 29.0%
Sales Pricing	Avg. Price per Sq. Ft.	\$145.87	Down 3.8%
Active Pricing	Avg. Price per Sq. Ft.	\$168.14	Up 1.1%

Summary: Supply is up and demand is down. Sales prices dropped in September but now appear to have stabilized.

Single family homes between \$400,000 and \$800,000 have seen active listings grow 8% over the last month and 12% over the last 3 months. This is still down 24% compared with this time last year, but this is just one of many signals that the dynamics of this price range are starting to deteriorate. The sales volume weakened again in October, with monthly sales down 7% compared with September and also down 7% compared with October 2010. Pending sales fell by 5.1% over the last month and are now a remarkable 22% below last year. .

Months of supply now stands at 8.3 months up from 7.2 last month. The annual sales rate is slowing at 3,856 so inventory is back up to 203 days when measured on an annual sales basis. This is a return to the levels of May 2011. REO supply increased 12% during October, while normal listings increased by 10% and now represent 78% of the supply. In contrast the number of active short sales and pre-foreclosures fell by 2%. Normal sales jumped to a 68% market share which helped the average sales price despite the market deterioration. As a result of these changes the market distress index fell to 26.8. Reflecting the lower demand and increased supply, the contract ratio dropped to 32.5.

Average sales pricing for this price range is down by 3.8% over the last three months but recovered 3% from the severe drop in September. Compared with October 2010 pricing is up by 2.5%. The average price for pending sales rose to \$148.67 per sq. ft. and active list pricing also rose from \$167.52 to \$168.14 per sq. ft. so the current picture is one of restored stability after a steep decline between August and September.

With demand down and supply up this price range looks a lot weaker than during the spring, but pricing has adjusted quickly which should help stimulate more demand. However, with the prevailing climate of low appraisals and difficult loan approvals the short term outlook remains negative.

The most active ZIP codes for sales in this price range were Scottsdale 85255, Scottsdale 85259, Scottsdale 85262, Phoenix 85018, Scottsdale 85266, Paradise Valley 85253 and Scottsdale 85258.

5. Homes over \$800,000

Market Information	Source	Reading	3 Month Trend
Supply	Active Listings	1,508	Up 7.2%
Current Demand	Pending Sales	107	Down 19.5%
Recent Demand	Sales per Month	90	Down 8.2%
Sales Pricing	Avg. Price per Sq. Ft.	\$245.78	Up 3.2%
Active Pricing	Avg. Price per Sq. Ft.	\$356.89	Up 0.0%

Summary: The luxury market remains weak. Supply is growing while demand is muted.

We have a mixed picture this month for the luxury market. The monthly sales rate was 18% higher than last year but pending sales are down 17% compared with last October and 19.5% lower than three months ago. Demand has still not recovered from the steep drop off which coincided with the debt limit crisis and the stock market decline in July. Supply is on the rise, up 7.2% over the last month although still 25% below last year. Months of supply has fallen from 18.3 to 16.8 thanks to the increased monthly sales rate, while days inventory has increased to 421 partly because the annual sales rate is now declining.

Active REOs increased from 38 to 42 over the last month and these represent 2.8% of total active listings. There were only 4 REO sales (the lowest total since November 2008) and these represented just 4% of the closed listings. The REO sales price average was \$201.46 per sq. ft. while short sales and pre-foreclosures came in at \$209.18 per sq. ft. There were 16 short sales and pre-foreclosures and 70 normal sales, which compares with 47 in October 2010. Active short sales and pre-foreclosures were up 12% at 132, which is 8.8% of active inventory. Normal sales pricing averaged \$258.13.

The market distress index dropped to 16.9, the lowest level in over 2 years, thanks to the large number of closed normal sales. The contract ratio deteriorated to 13.0. Average active listing pricing gained a negligible 0.3% to \$356.89 over the last month but is still much higher than achieved sales pricing at \$245.78 per sq. ft. The monthly average sales price per sq. ft. was up 1.4% compared with September and is just 0.8% higher than October 2010. The annual average price per sq. ft. is remarkably stable and moved just a little higher to hit \$247.58 in October. Pending sales pricing is 3.2% lower than last month and suggests we may see somewhat weaker sales pricing in October, especially in more distressed properties are included in the closed transactions.

In the short term our outlook for this sector remains negative because of the low number of pending sales and increasing supply. The most active ZIP codes for sales in this price range were Scottsdale 85262, Scottsdale 85255 and Paradise Valley 85253. There were 57 sales among these three ZIP codes and only 33 sales shared among 23 other ZIP codes.

Forecast

Last month we forecast that sales prices would fall in the range \$79 to \$83 per sq. ft. and that is what happened, with pricing coming in at \$80.77 per sq. ft. The average \$/SF for pending sales remains between \$78 and \$80 and this set of homes under contract still includes a relatively large number of HUD homes and short sales. We anticipate price increases at the lower end of the market offset by possible weakness in the higher price ranges, but with the former having the dominant effect due to the higher sales volume. We therefore expect overall average sales prices to be in the range between \$80 and \$84 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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