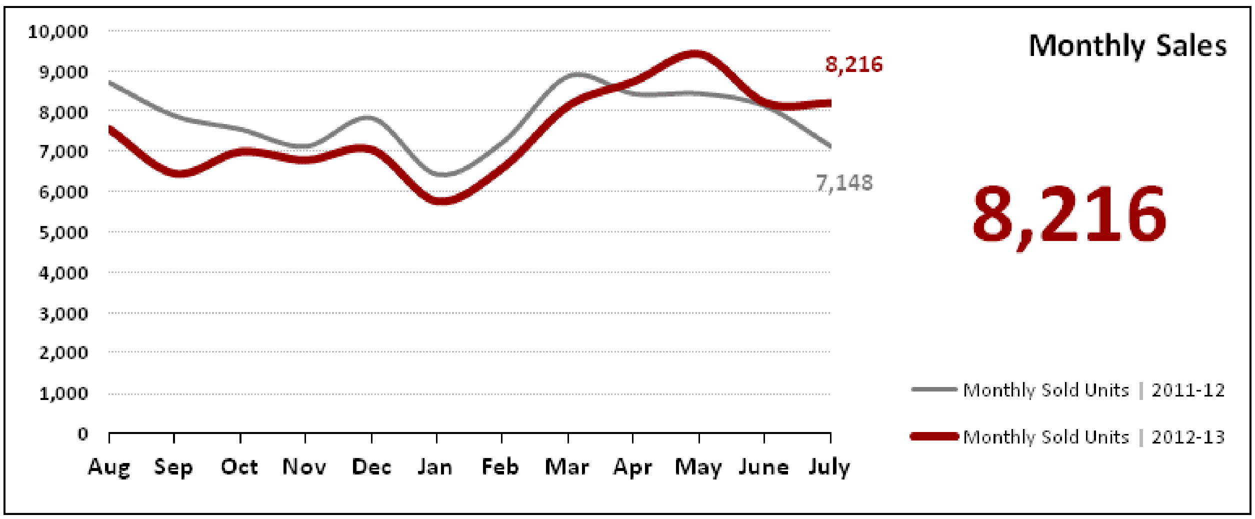
your monthly statistics for the Phoenix Metro area

ARMLS® STAT - August 9, 2013

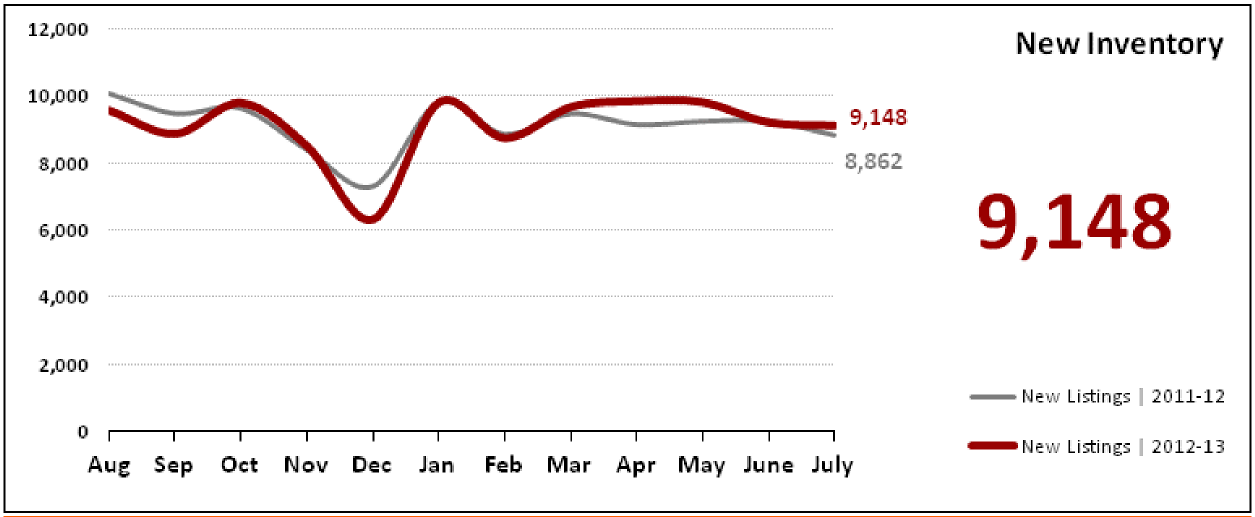
MONTHLY SALES



+14.9%, year over year

-0.1%, month over month

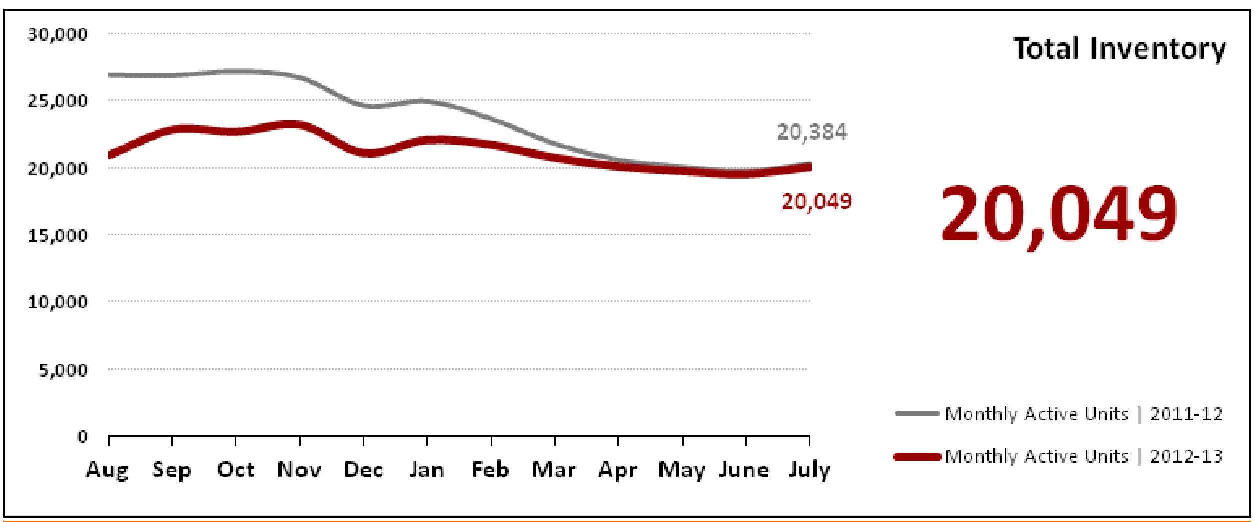
NEW INVENTORY



+3.2%, year over year

-1.1%, month over month

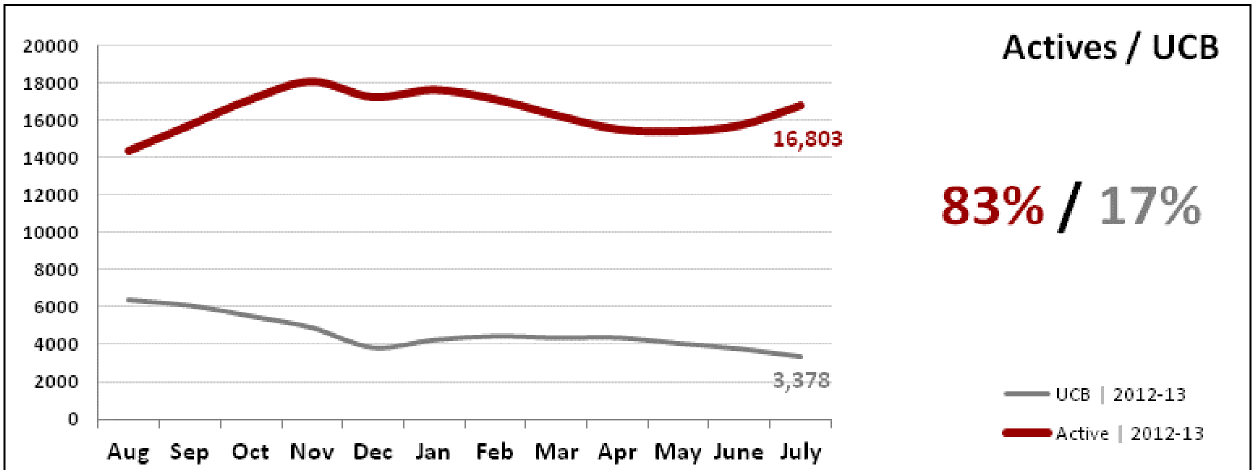
TOTAL INVENTORY



-1.6%, year over year

+2.8%, month over month

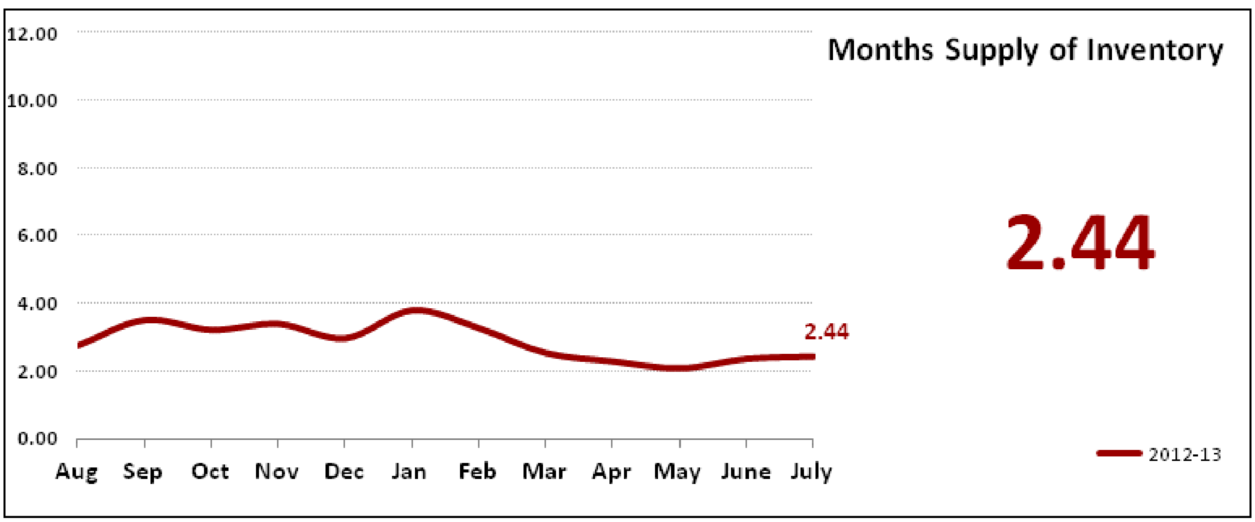
ACTIVES / UCB



33.0%, July 2012 UCB percent of total Active

19.4%, June 2013 UCB percent of total Active

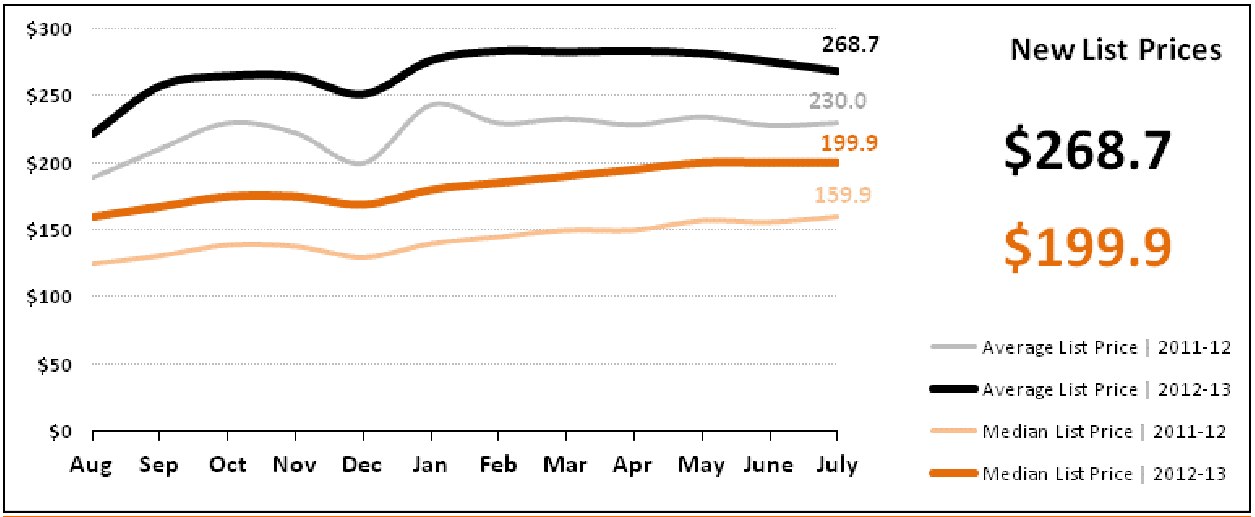
MONTHS SUPPLY OF INVENTORY



2.85, MSI July 2012

2.37, MSI June 2013

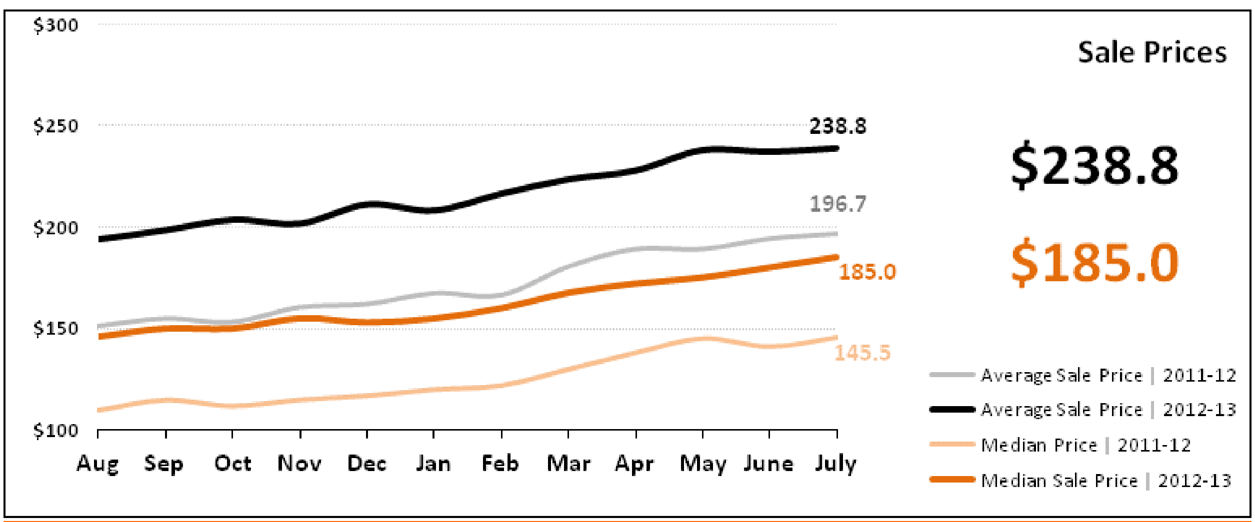
NEW LIST PRICES



+16.8%, year over year average

+25.0%, year over year median

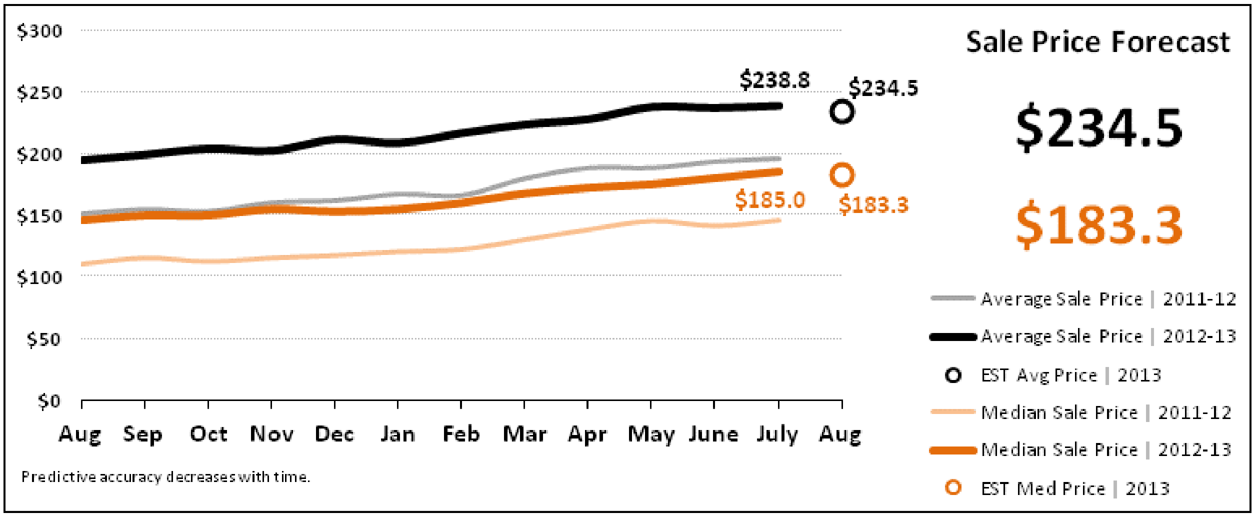
SALES PRICES



+21.4, year over year average

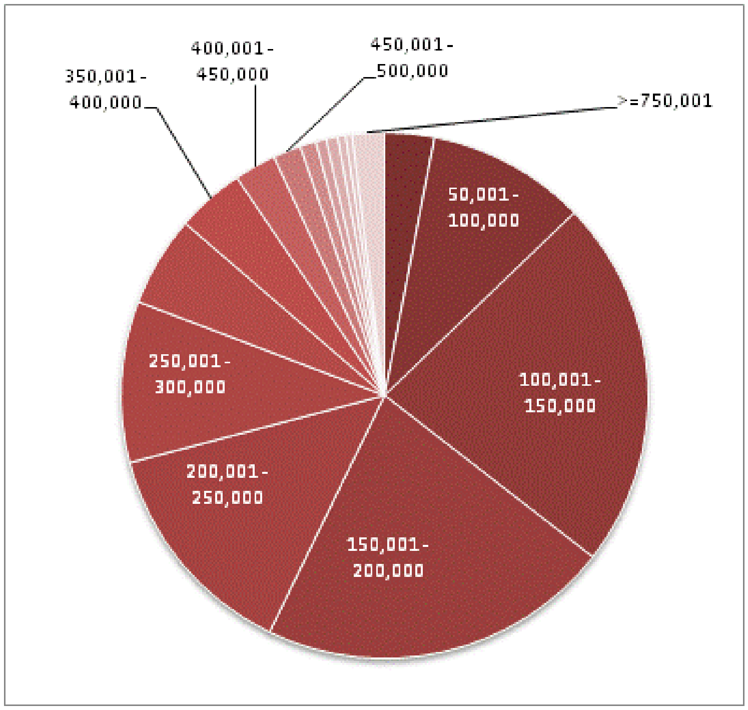
+27.1%, year over year median

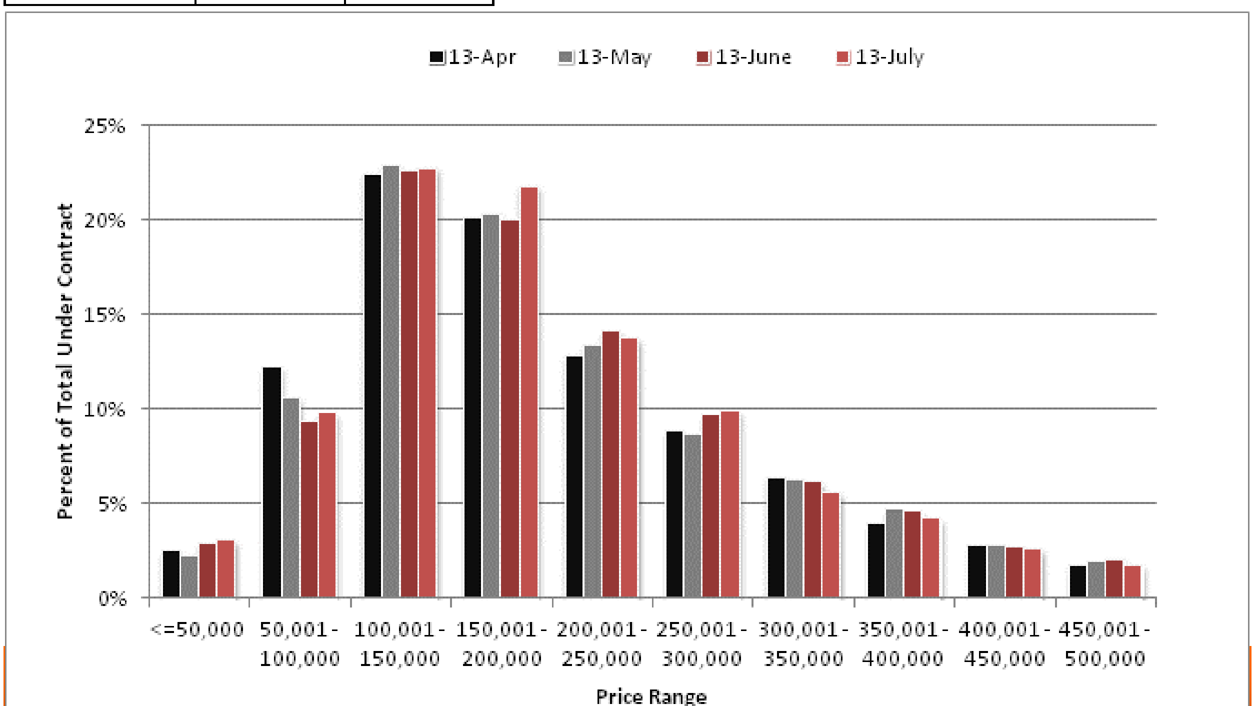
THE ARMLS PENDING PRICE INDEX™



PPI SUPPLEMENT

Pending Contracts Signed In July		
Price Range	PPI Units	Units % of Total
<=50,000	200	3.05%
50,001 - 100,000	640	9.75%
100,001 - 150,000	1,489	22.69%
150,001 - 200,000	1,425	21.72%
200,001 - 250,000	898	13.69%
250,001 - 300,000	648	9.88%
300,001 - 350,000	364	5.55%
350,001 - 400,000	274	4.18%
400,001 - 450,000	169	2.58%
450,001 - 500,000	113	1.72%
500,001 - 550,000	64	0.98%
550,001 - 600,000	42	0.64%
600,001 - 650,000	47	0.72%
650,001 - 700,000	32	0.49%
700,001 - 750,000	26	0.40%
>=750,001	130	1.98%

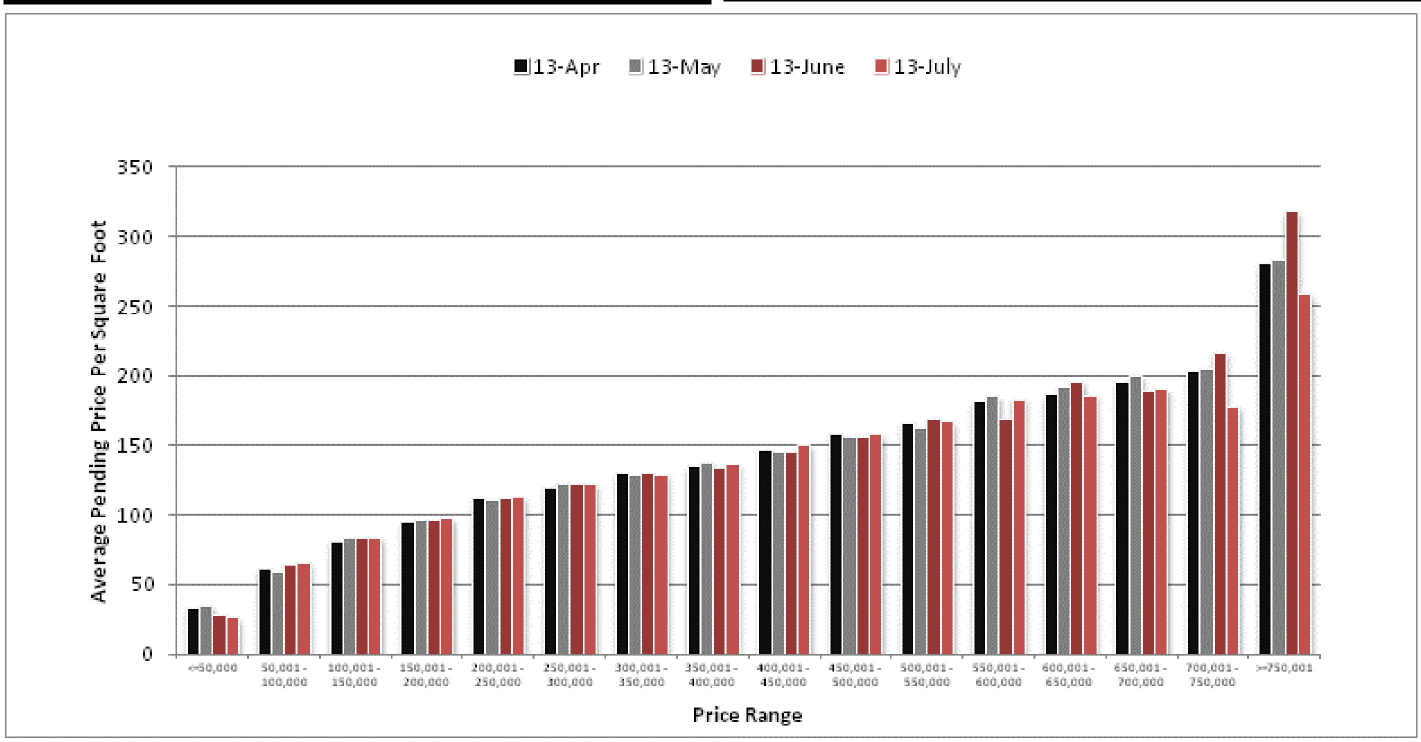




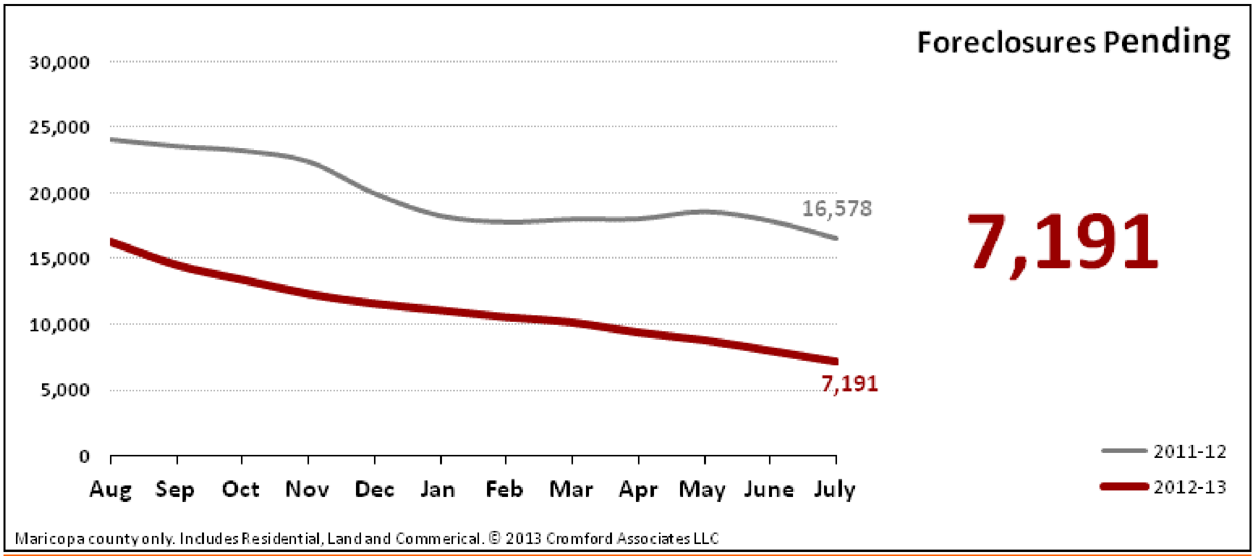
PPI SUPPLEMENT - $/SQ FT

Pending Contracts Signed In June				
Price Range	PPI Avg	PPI Sq Ft	PPI Units	Avg Pending Price SqFt
<=50,000	33,004	1,189	205	28
50,001 - 100,000	79,442	1,252	674	63
100,001 - 150,000	129,321	1,544	1,626	84
150,001 - 200,000	174,019	1,797	1,438	97
200,001 - 250,000	225,865	2,027	1,016	111
250,001 - 300,000	276,072	2,257	701	122
300,001 - 350,000	327,285	2,507	439	131
350,001 - 400,000	375,924	2,814	332	134
400,001 - 450,000	424,215	2,907	193	146
450,001 - 500,000	474,505	3,041	148	156
500,001 - 550,000	528,882	3,126	91	169
550,001 - 600,000	574,680	3,409	60	169
600,001 - 650,000	626,449	3,196	42	196
650,001 - 700,000	677,357	3,571	39	190
700,001 - 750,000	724,745	3,346	28	217
>=750,001	1,448,937	4,556	182	318

Pending Contracts Signed In July				
Price Range	PPI Avg	PPI Sq Ft	PPI Units	Avg Pending Price SqFt
<=50,000	33,964	1,297	200	26
50,001 - 100,000	80,656	1,228	640	66
100,001 - 150,000	128,743	1,531	1,489	84
150,001 - 200,000	174,223	1,786	1,425	98
200,001 - 250,000	225,152	1,996	898	113
250,001 - 300,000	275,391	2,256	648	122
300,001 - 350,000	327,488	2,543	364	129
350,001 - 400,000	376,764	2,765	274	136
400,001 - 450,000	426,392	2,840	169	150
450,001 - 500,000	477,013	3,024	113	158
500,001 - 550,000	527,445	3,156	64	167
550,001 - 600,000	575,293	3,136	42	183
600,001 - 650,000	628,383	3,384	47	186
650,001 - 700,000	678,169	3,562	32	190
700,001 - 750,000	731,425	4,110	26	178
>=750,001	1,247,119	4,820	130	259



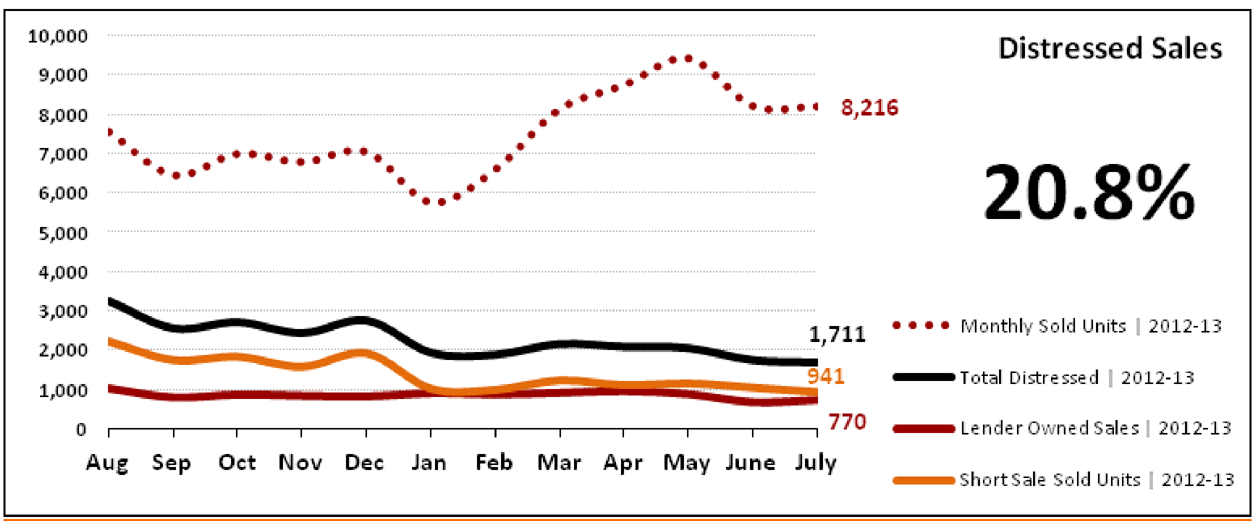
FORECLOSURES PENDING



-56.6%, year over year

-11.6%, month over month

DISTRESSED SALES

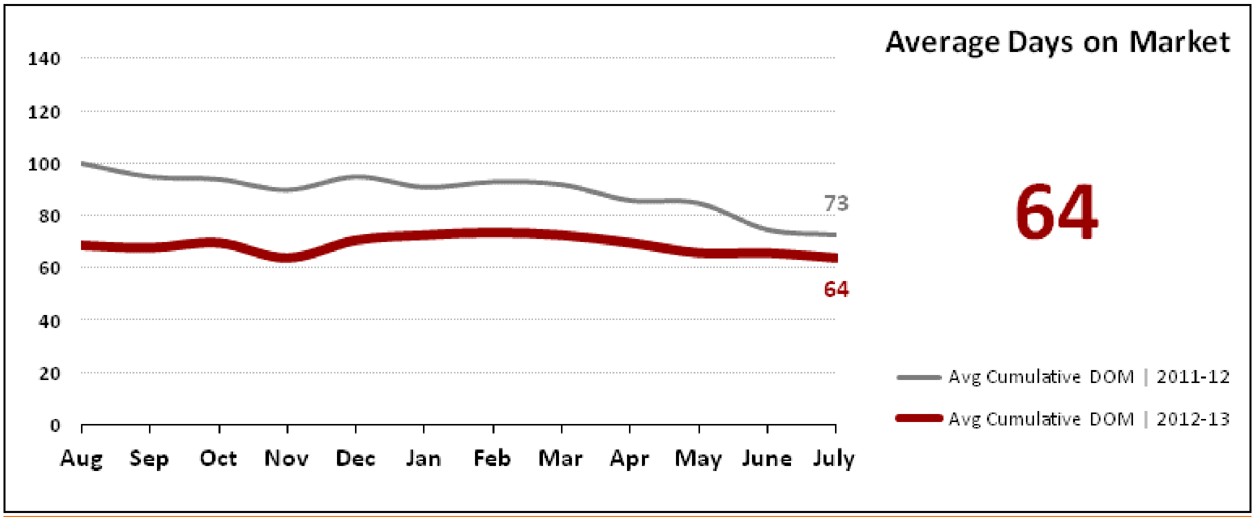


-55.4%, short sale units year over year

-26%, lender owned units year over year

-45.7%, total distressed year over year

AVERAGE DAYS ON MARKET



-9, year over year

-2, month over month

COMMENTARY

by Tom Ruff of The Information Market

July sales volume came in higher than expected with a year-over-year increase of 14.9% at 8,216 compared to 7,148. Month-over-month numbers were nearly identical with June numbers only 0.1% lower, 8,216 compared to 8,228. The median sales price rose again in July reaching $185,000 compared to $180,000 in June, which is a 2.8% increase for the month and 27% higher than at this time last year. Total inventory numbers remain low, down 1.6% from last year at 20,049 compared to 20,384 and only 2.8% higher than 19,511 in June. The long term forecast, as our imbalance between demand and supply continues, is for upward price pressure. However, in the short term a summer lull is quite likely. It is not uncommon for prices to move sideways or slightly downward in the summer months, but then pick up again as temperatures return to pleasant. The Pending Price Index forecasts a median sale price of $183,000 for August, down slightly from July. Median sales prices are a great indicator of affordability, however the median can be weak as it tends to gravitate to rounded price points and monthly movements can exaggerate monthly price gains and declines. If the median sales price does fall as expected, it is best explained as temporary.

The biggest changes in our market continue to be in declining distressed inventories as we quickly transition to a normal market. Normal sales now account for 80% of sold properties. In July we saw 941 short sales sold, 55% below last year at this time and 10% lower than June. President Obama's choice of Phoenix for his economic speech on housing was not by chance, Phoenix is quickly becoming the poster child for the housing recovery.

Home buyers looking for bargains are going to have to work harder as added focus is given to the smaller inventory of distressed properties. The total number of distressed single-family residences in Maricopa County is now below 10,000. In this context distressed inventory is defined as the number of homes with an active notice of trustee sale combined with the number of bank/government owned homes. As of today there are only 9,915 total homes comprising the distressed property inventory, 6,588 with active notices and 3,327 are bank held. Of the 9,915 distressed homes, 1,362 of these properties are listed for sale, 1,277 have pending contracts and 227 are showing as closed on the MLS but have not yet publically recorded the conveyance. Our distressed inventory is even smaller than it appears. In July, 834 homes were sold at foreclosure auction, 374 reverted to the beneficiary and 460 were purchased by third parties. Of those 460 third party purchases, 30% were purchased at a price higher than the original mortgage. Bargain hunters looking to acquire property and agents looking to list distressed properties will increase their marketing efforts as the notices are recorded and door-knocking will be coming back in vogue. Defaults from the bubble mortgages will still be solicited as short sales, but defaults from 2009-forward will most likely have equity and will be solicited as normal sales. Early adapters not wanting to get lost in the shuffle with those soliciting notices as soon as they are recorded will move their focus upstream by obtaining the names and addresses of people with mortgages in the early stages of delinquency.

A recent article from Reuters news service stated –"*Dramatic home price gains in some of America's largest cities point to a potentially new housing bubble in those areas, according to Robert Shiller, a co-founder of the S&P/Case-Shiller Home Price Index. Shiller said big price gains in Las Vegas, Los Angeles, San Francisco, Miami and Phoenix, fueled in part by a large influx of outside investor money, are a possible sign of trouble ahead. 'There is a risk of bubbles in these cities.' Shiller, told Reuters in June. 'House prices increases have been dramatic. It looks like the beginning of the last bubble.' There is a risk that prices could rise for another year in these areas and then fall back, hurting newer buyers as they try and compete in markets where low inventory and all-cash Wall Street investors were pushing upwards…"*

Shiller is correct, there have been dramatic home price increases in Phoenix, but this is where the similarities to the bubble years stop. In 2005, new home construction was taking place at record levels and credit was easy as the bubble was inflating. In June of 2005, we actually saw the median sales price of a resale home exceed the median sales price of new construction, as a 6-9 month time lag existed between the signed contract and the completed construction. Credit was easy and a new home could be ordered with minimal down. Prices were rising, but so was supply. Today we have a supply shortage, strict credit guidelines requiring a 770 credit score and a building industry responding slowly to our lack of inventory. The median price for a newly constructed home in Maricopa County for the month that just ended is $285,524, $100,000 greater than our current median sales price.

Whenever asked about our sudden rise in prices and why, my response is, it has a lot to do with how far our prices fell. The percentage increases we've seen have as much or more to do with the denominator as the numerator. We saw the median sales price peak in 2006 at $264,800, and bottom in 2011 at $108,300. Our current median sales price is $185,000. Yes, we have had dramatic price increases, from the bottom of the market. The plunge in median sales prices from the top to bottom showed a nearly 60% decline. When prices fall by 60% you don't get back to the top by increasing 60%, prices need to increase 150%. Could our current increase in prices, in part, be attributed to a normal economic rebound where prices over corrected going down and are now seeking balance?

Wall Street is an easy target. Unfortunately, this dog doesn't hunt. Our data in Maricopa County shows 11,700 single-family residences owned by institutional investors, or roughly 1% of all single-family residences. Their interests in condos have been minimal and their footprint in Pinal is small, acquiring less than 500 homes. Since January 1, 2012, institutional investors have purchased 10,500 homes in Maricopa County through three basic channels: MLS, trustee sales and bulk/other investors. One portfolio of approximately 300 properties was acquired via a onetime Fannie Mae auction. The Wall Street investors have been driven by undervalued assets and an abundant rental pool created by homeowners displaced by foreclosure. Since the institutions purchase with cash and focus on distressed single-family properties, they are buying at a discount.

Of the 10,500 homes purchased in Maricopa since the beginning of 2012, roughly 4,200 were sold on the MLS, 3,000 were purchased at trustee's sale and 3,000 were purchased by acquiring the portfolios or individual assets of other investors (as previously mentioned 300 were acquired directly from Fannie Mae). While the 3,000 purchased at auction have had a dramatic impact on competing local investors, the 4,200 MLS purchases have had less of an impact on MLS pricing. Remember, our median sales price calculations have been based on MLS sold activity. One of the biggest factors driving our current market is the imbalance between our population growth and the number of new homes being built, not institutional investors.

Maybe the best argument I've read countering Shiller's hypothesis appeared in the daily comment section of The Cromford Report on July 28th. "*One more confirmation of how silly the idea of "another bubble" is. The monthly average price per square foot is today standing at $119.79 for all areas and types. The average for the period January 1, 2001 to July 28, 2013 is $119.40. Whoever heard of a bubble in which prices were almost the same as a 13 year average?*"