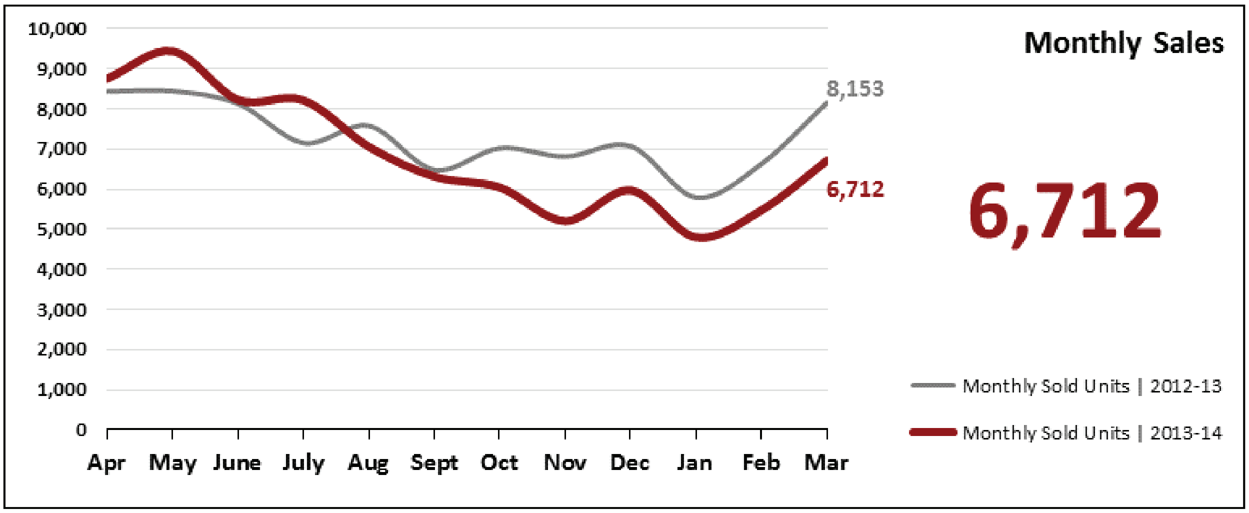
ARMLS® STAT - April 9, 2014

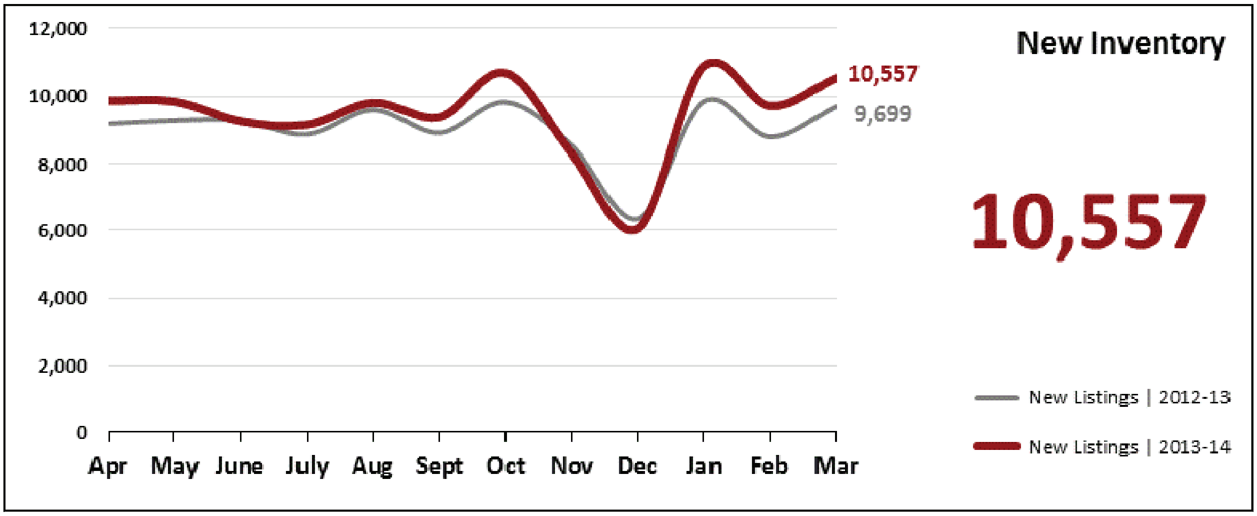
MONTHLY SALES



-17.7%, year-over-year

+22.6%, month-over-month

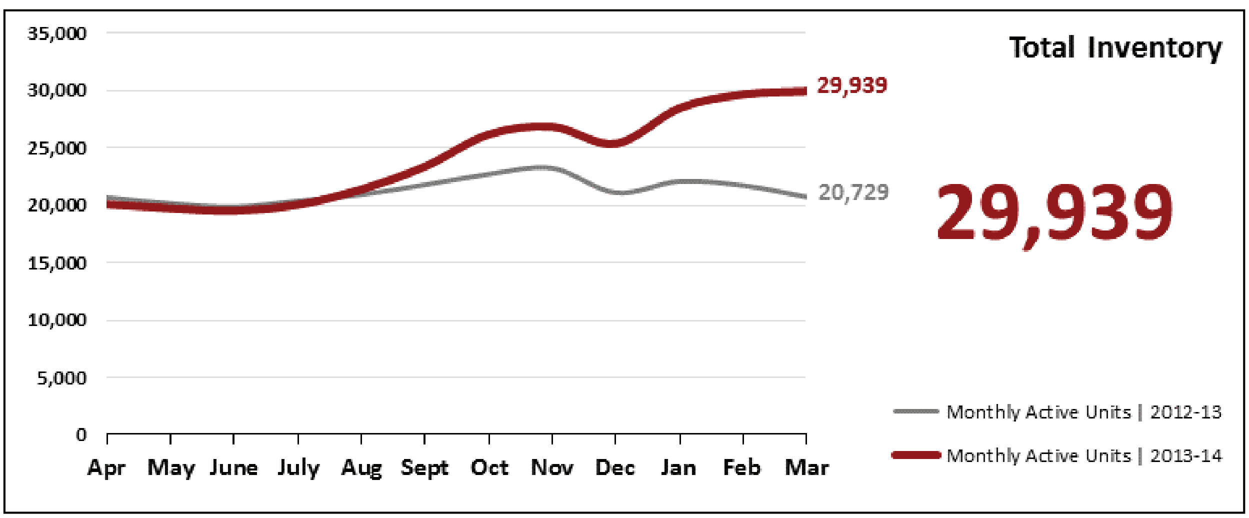
NEW INVENTORY



+8.8%, year-over-year

+8.8%, month-over-month

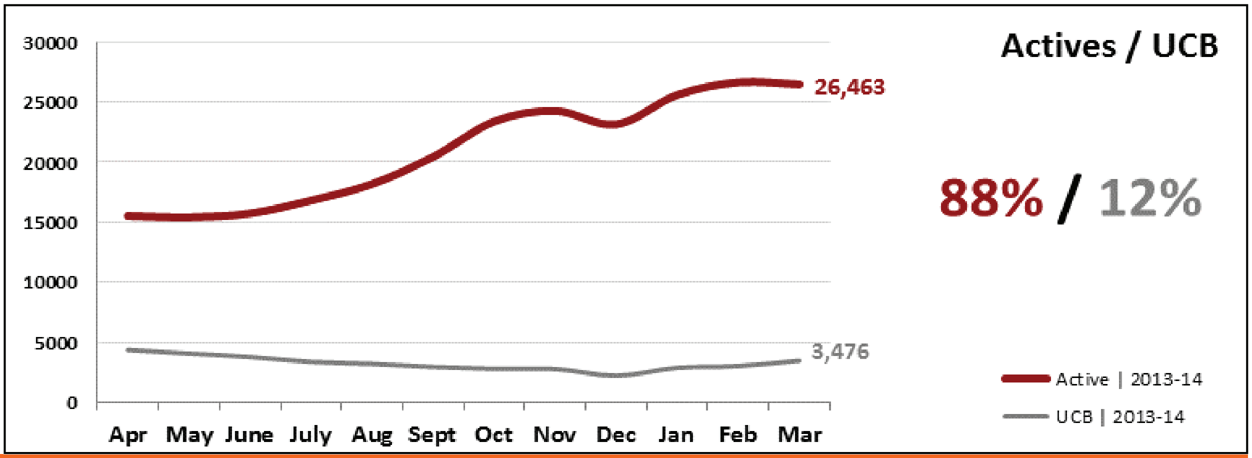
TOTAL INVENTORY



+44.4%, year-over-year

+0.9%, month-over-month

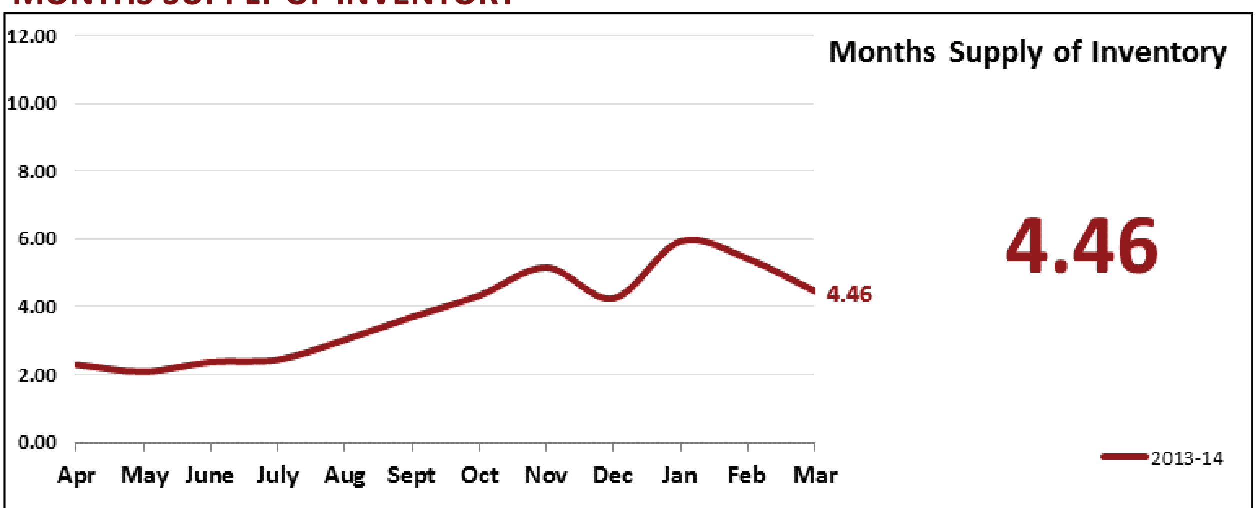
ACTIVES / UCB



10.2%, February 2014 UCB percent of total Active

11.6%, March 2014 UCB percent of total Active

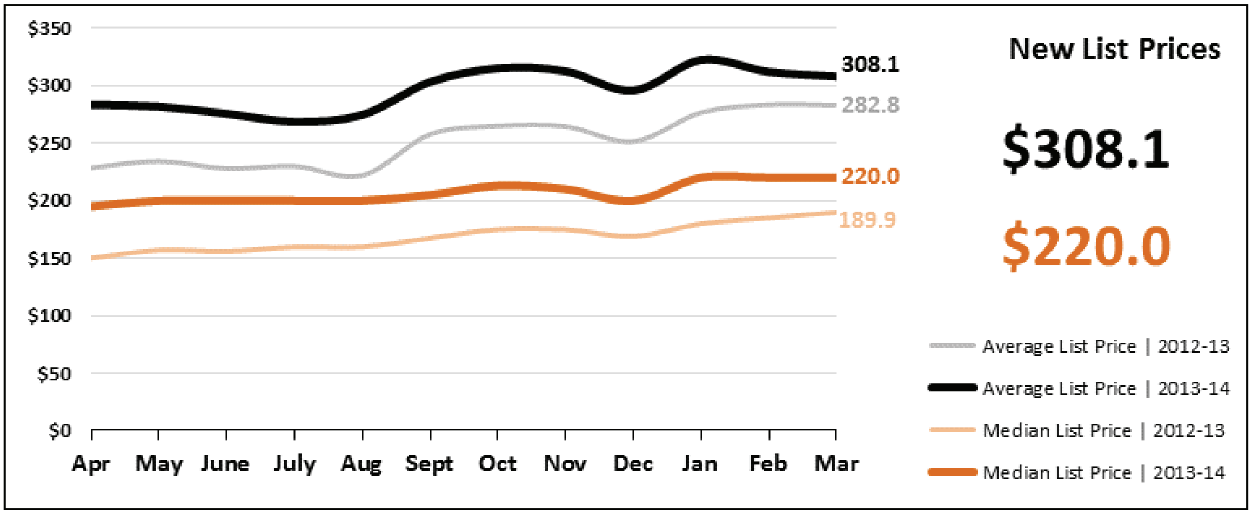
MONTHS SUPPLY OF INVENTORY



5.42, MSI February 2014

4.46, MSI March 2014

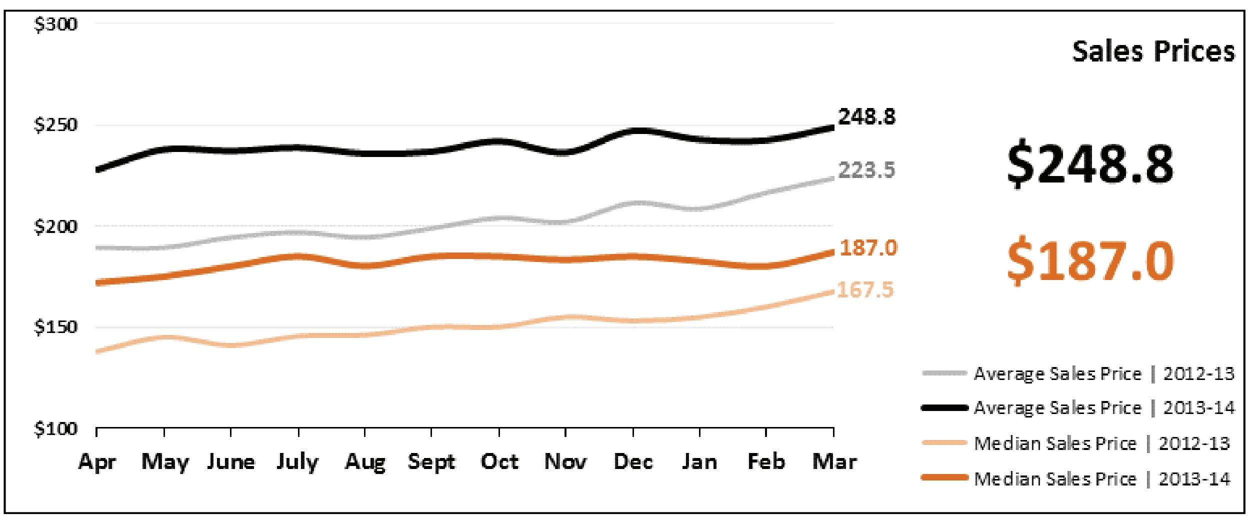
NEW LIST PRICES



+8.9%, year-over-year average

+15.9%, year-over-year median

SALES PRICES

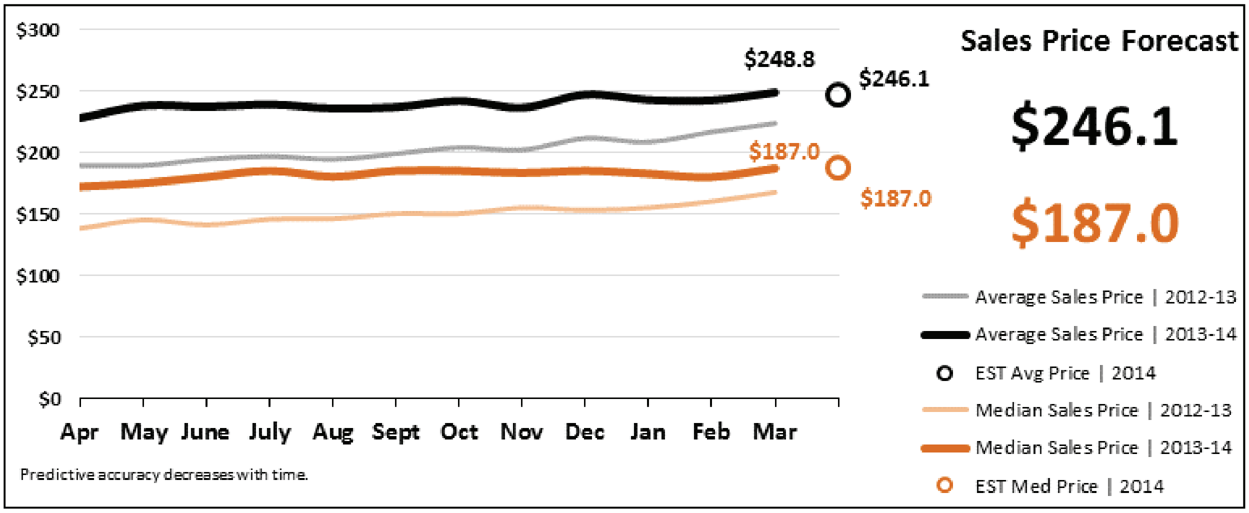


+11.3%, year-over-year average

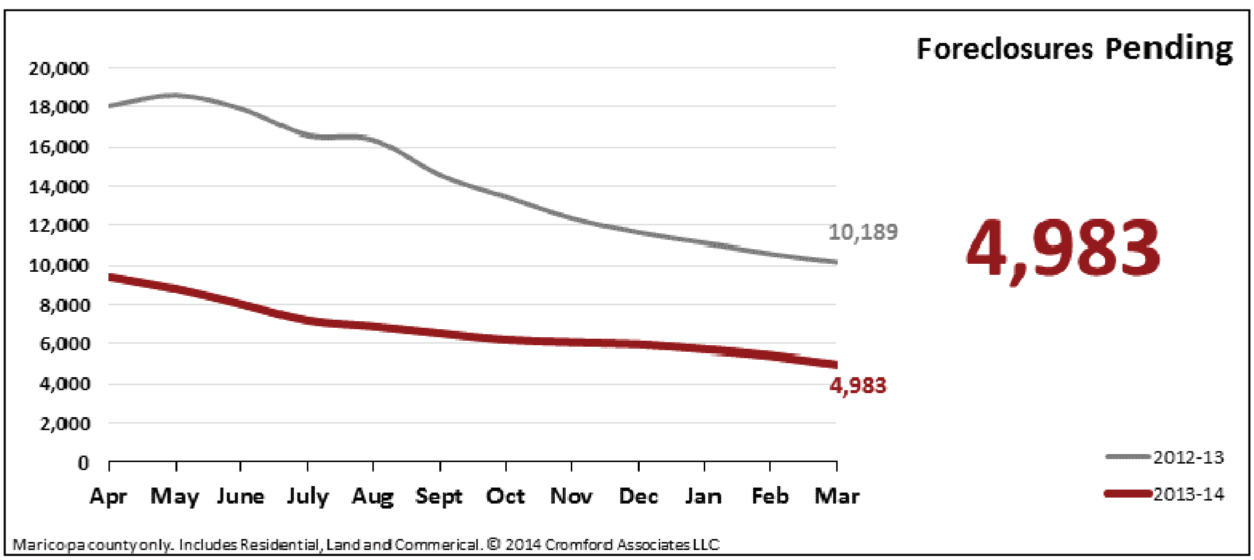
+11.6%, year-over-year median

THE ARMLS PENDING PRICE INDEX™

SALES PRICE FORECAST



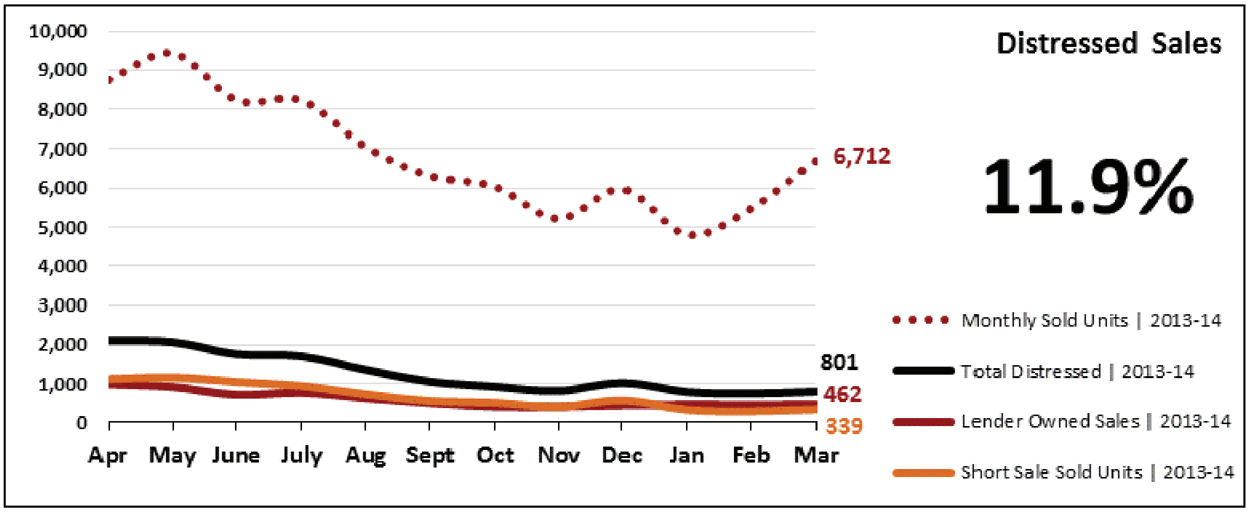
FORECLOSURES PENDING



-51.1%, year-over-year

-8.1%, month-over-month

DISTRESSED SALES

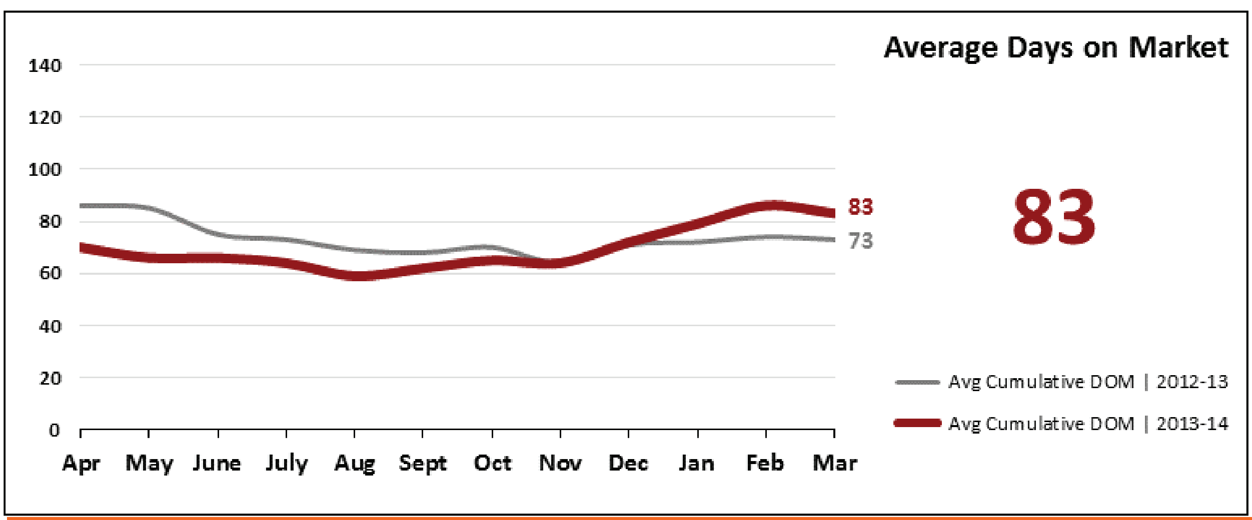


-72.5%, short sale units year-over-year

-51.3%, lender owned units year-over-year

-63.3%, total year-over-year

AVERAGE DAYS ON MARKET



+10, year-over-year

-3, month-over-month

COMMENTARY
by Tom Ruff of The Information Market

Sales activity in March came in pretty much as expected. In February we had projected 1,400 fewer sales year-over-year and an uptick in the median home price. Year-over-year sales volume in March was down 17.7% with 1,441 fewer sales than the previous year. The decline in sales volume exists almost entirely in homes purchased for less than $200,000, clearly demonstrating the decline in investor activity in our market and the challenges faced by entry-level buyers. The median priced home in March was 3.9% higher than February rising from $180,000 to $187,000. Last month we anticipated a 2.3% increase in the median sales price with the caveat this increase in value should not be viewed as an indication of price appreciation, but is most likely attributed to seasonal factors.

Even though our supply is what can best be described as typical, our demand is 25% below normal. I still anticipate the imbalance we are seeing between supply and demand to exert downward pressure on pricing later this year. The ARMLS Pending Price Index for April projects the median priced home will remain unchanged at $187,000. In terms of sales volume in April, I expect volume in April will be in the 7,350 range, slightly higher than March in accordance with historical norms, but remaining well below 8,754 found last April.

Last month we asked the question, **where are the buyers?** We like to look at large groups when it comes to market influence and how they are formed. For example, a generational group could be baby boomers, the children of baby boomers or a large group created by economic realities.

Over the past few years the rate of homeownership has declined and we've seen numerous stories referencing "a nation of renters." These articles suggest a cultural shift has taken place where owning a home may no longer be the American dream. A recent report published by NAR did a nice job covering **generational trends.**

I disagree that the lack of buyers is due solely to generational trends but contend that the decline in homeownership is the result of pure economics. Where are the buyers? My answer, they're coming, but they still have some major challenges to overcome. In this edition of STAT, we'll look into a large group that was created by economic factors, a group the press has branded "boomerang buyers."

Boomerang buyers are defined as potential home buyers who were previously displaced from their homes due to a foreclosure or short sale. At present, the vast majorities of these potential buyers are unable to return to the market due to credit and down payment requirements. From a statistical perspective these potential buyers might best be defined as "pent up demand," or to steal from a previously popular phrase "shadow demand." In a recently published article in The Arizona Republic entitled **"Time frame for buyers on rebound"** Catherine Reagor did a very nice job simplifying the time and down payment requirements these potential buyers face.

From the article:

FHA: *Homebuyers can take out loans for up to $271,060 in Maricopa County. People who went through foreclosures must wait three years and have a 3.5 percent down payment. Some borrowers who completed short sales with special circumstances, such as a deed-in-lieu situation or problems with a loan modification, are eligible for a loan within a year.*

Fannie Mae: *Borrowers can obtain loans for up to $417,000 in the Valley. People who lost a house to foreclosure must wait seven years to qualify and put 10 percent down, unless there was a special circumstance. Former homeowners who completed short sales have to wait two years and have a 20 percent down payment or four years and a 10 percent down payment.*

Freddie Mac: *Borrowers can take out loans for up to $417,000 in the Valley. Borrowers with a foreclosure on their record must wait seven years unless there's a special circumstance, and then the wait is three years. People who went through a short sale must wait four years.*

Veterans Administration: *These mortgages have the biggest limit, $1 million. Borrowers with a foreclosure only have to wait two years and don't need a down payment if the mortgage is less than $417,000. Eligible veterans who have done a short sale may not even have to wait to take out a VA-backed loan.*

In order to put these requirements in perspective, let's take a look at new home financing from 2012 forward. In 2012, when cash buyers/investors played a more significant role in our market, only 55% of home purchases were financed, while in 2013 this number rose to 65%. Thus far in 2014, 67% of the homes purchased have been financed. The percentage of loans based on the types mentioned in the Republic article have stayed fairly consistent, with Freddie Mac and Fannie Mae accounting for 56% of home purchases financed, 28% obtained FHA financing and VA loans accounted for 6%. All other forms of purchase financing accounted for 10%, and each of these other types individually were less than the 6% VA figure. Examples of other types of financing would be seller carrybacks, private loans often times from a related party, jumbo loans, or loans from companies specializing in "hard money."

Reviewing the requirements listed above, the VA is the most boomerang buyer friendly but as we can see from the loans being made, they account for the smallest volume of new home purchases. FHA is the second most friendly but they finance slightly more than 1 out of every 4 homes purchased with financing. The largest majority of buyers financing a home purchase obtain either a Fannie Mae or Freddie Mac loan. Unfortunately, we are unable to differentiate between the two and therefore lump them together.

The requirements for new financing clearly favor a short sale to foreclosure and special circumstances over both. Having been through the loan process myself lately on a very straight forward loan application and the numerous hoops we were required to jump through I can only imagine how difficult it must be to prove the added dimension of special circumstances.

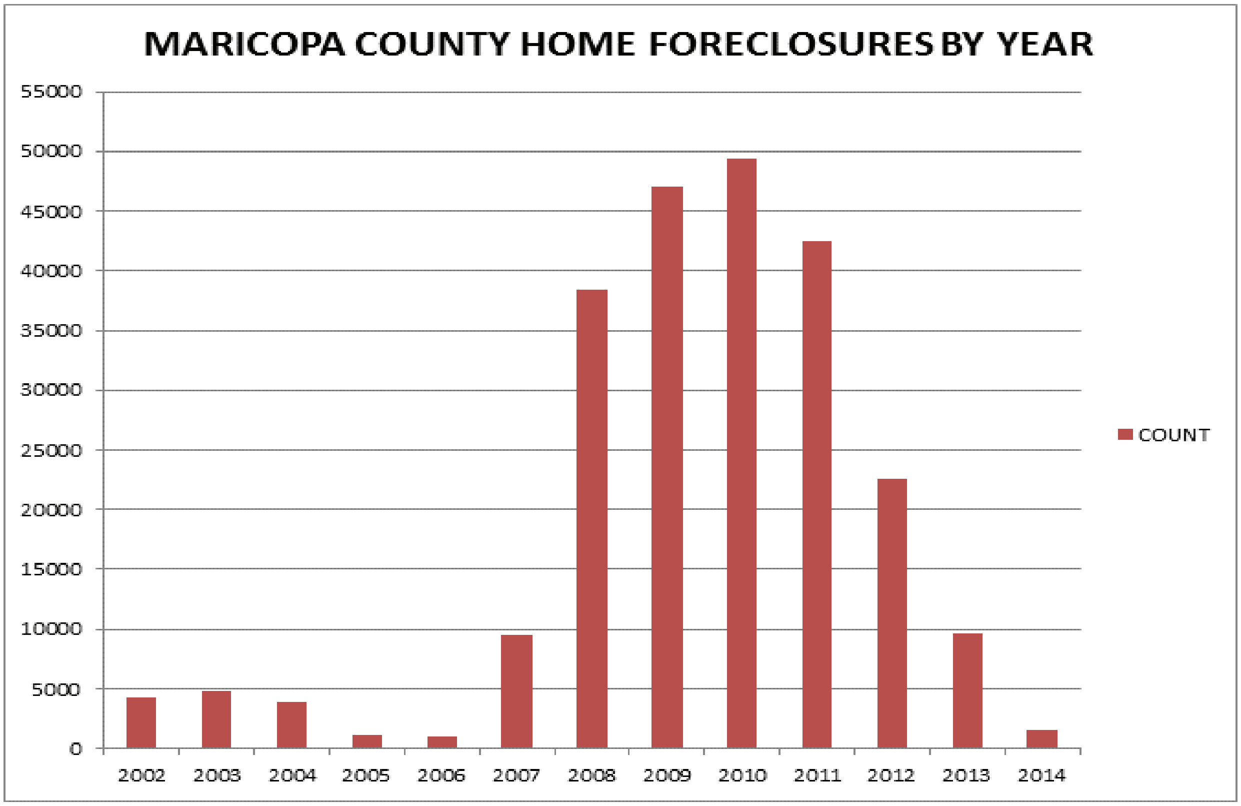
Freddie mac: **http://www.freddiemac.com/learn/pdfs/uw/caution_remind.pdf**

Fannie Mae: **https://www.fanniemae.com/content/guide/selling/b3/5.3/07.html**

For the purposes of this discussion we're going to ignore special circumstances and focus on when the largest majority of boomerang buyers will be able to return, seven years after a foreclosure and four years after a short sale. Under normal circumstances after 4 to 7 years a home owner would be able to use their existing equity towards the down payment of their next purchase, boomerang buyers have no such luxury and most likely the biggest obstacle they will face will be accumulating the 10% down payment. The two charts below will show the potential magnitude of boomerang buyers in Maricopa County:

Source: ARMLS

879	10987	16633	20557	20888	8424	680



Source: The Information Market 38434 47070 49344 42512 22618

The large number of foreclosures and short sales that took place in our market has evolved into pent up demand. From the beginning of 2008 through the end of 2012 over 200,000 homes were fore-closed on in Maricopa County. For the years of 2009 through 2013 over 77,000 homes were sold as short sales. These are astoundingly high numbers of former homeowners who left the market as a result of economic factors. While these are extreme numbers and by no means represent how many buyers will return, based on sheer numbers alone, this pent up demand will have a significant impact on our market in the future. As the charts above represented, we are on the front end of this potential wave of buyers. Looking ahead, it will be interesting to see just what impact boomerang buyers have on our market, and for the agents who listed and sold short sales, if you haven't already, it's probably time to revisit your contacts from 2009 and 2010.

	2014	**2015**	**2016**	**2017**
Foreclosures 7 years ago	9,551	38,434	47,070	49,344
Short Sales 4 years ago	16,633	20,557	20,888	8,424
Total	26,184	58,991	67,958	57,768