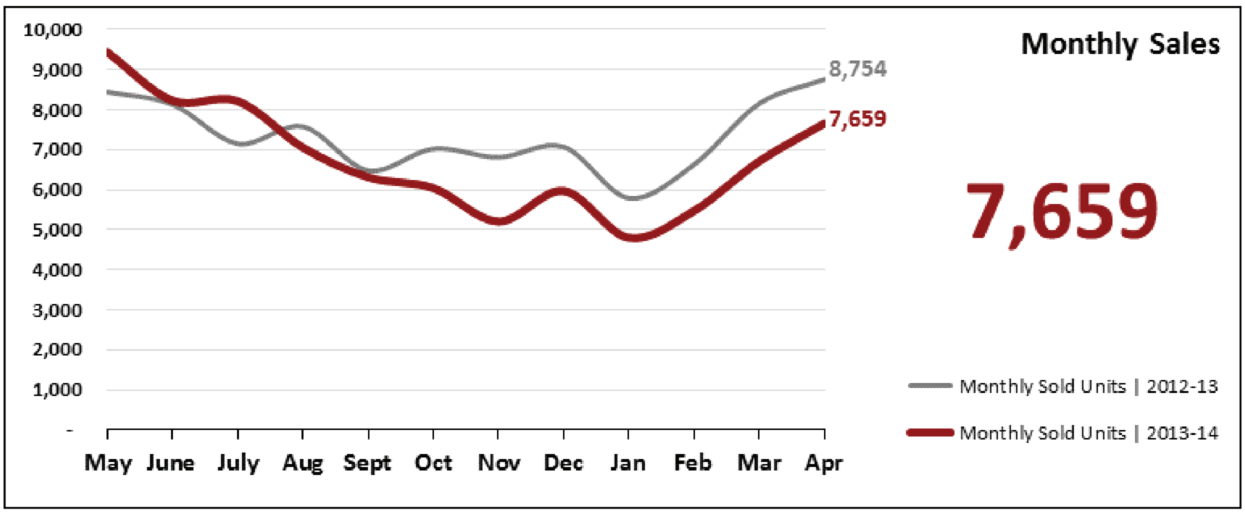
your monthly statistics for the Phoenix Metro area

ARMLS STAT

ARMLS® STAT - May 12, 2014

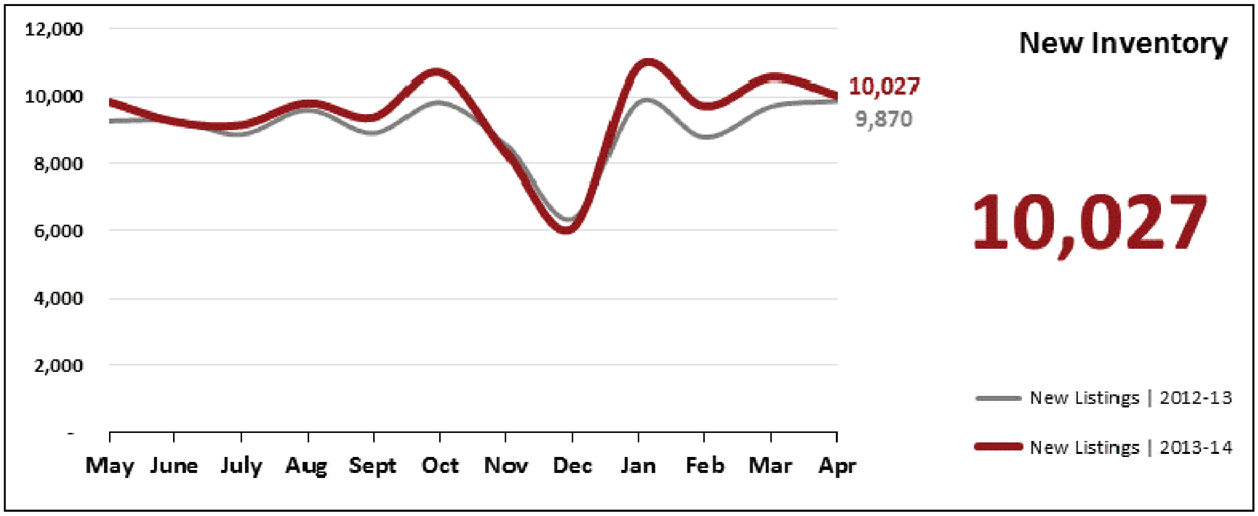
MONTHLY SALES



-12.5%, year-over-year

+14.1%, month-over-month

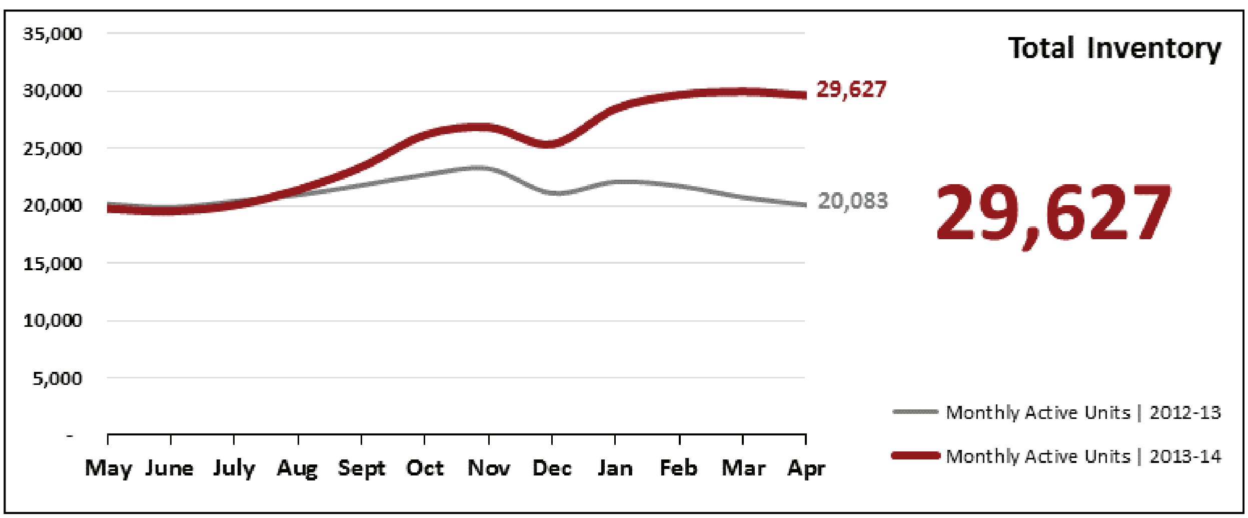
NEW INVENTORY



+1.6%, year-over-year

-5.0%, month-over-month

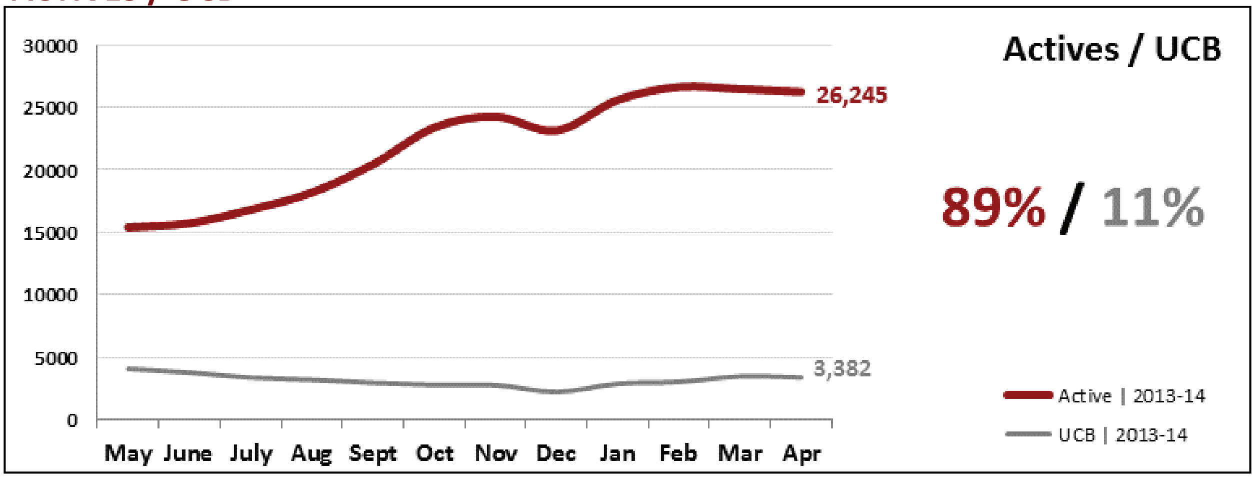
TOTAL INVENTORY



+47.5%, year-over-year

-1.0%, month-over-month

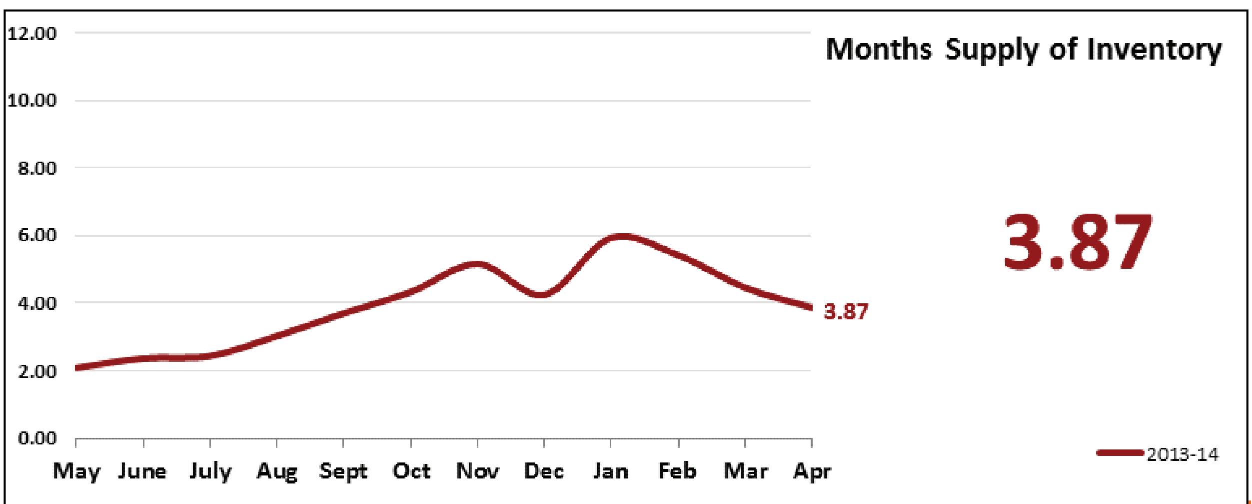
ACTIVES / UCB



11.6%, March 2014 UCB percent of total Active

11.4%, April 2014 UCB percent of total Active

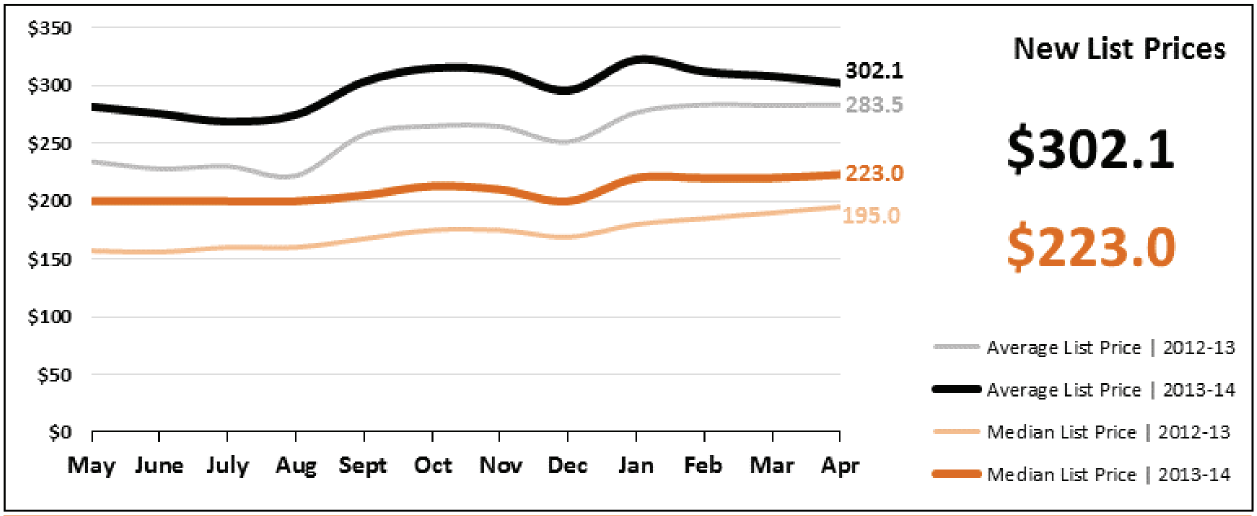
MONTHS SUPPLY OF INVENTORY



4.46, MSI March 2014

3.87, MSI April 2014

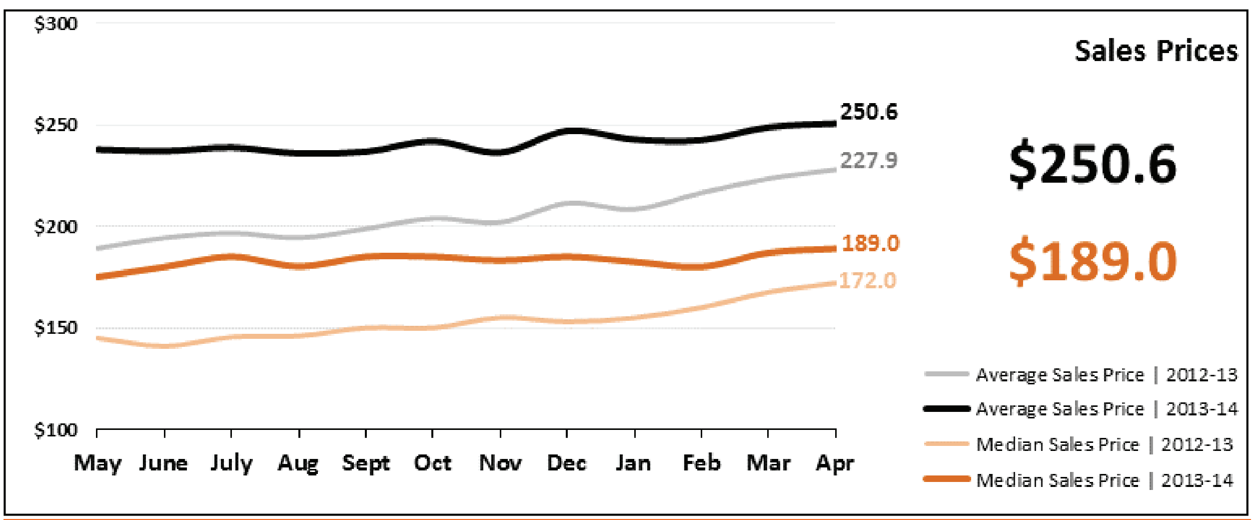
NEW LIST PRICES



+6.6%, year-over-year average

+14.4%, year-over-year median

SALES PRICES

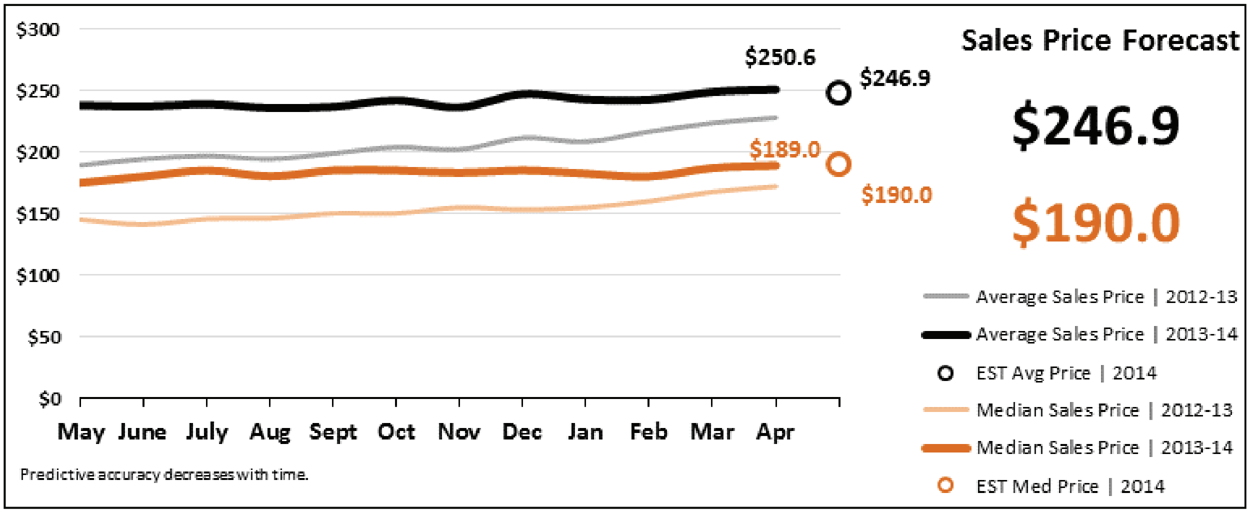


+10.0%, year-over-year average

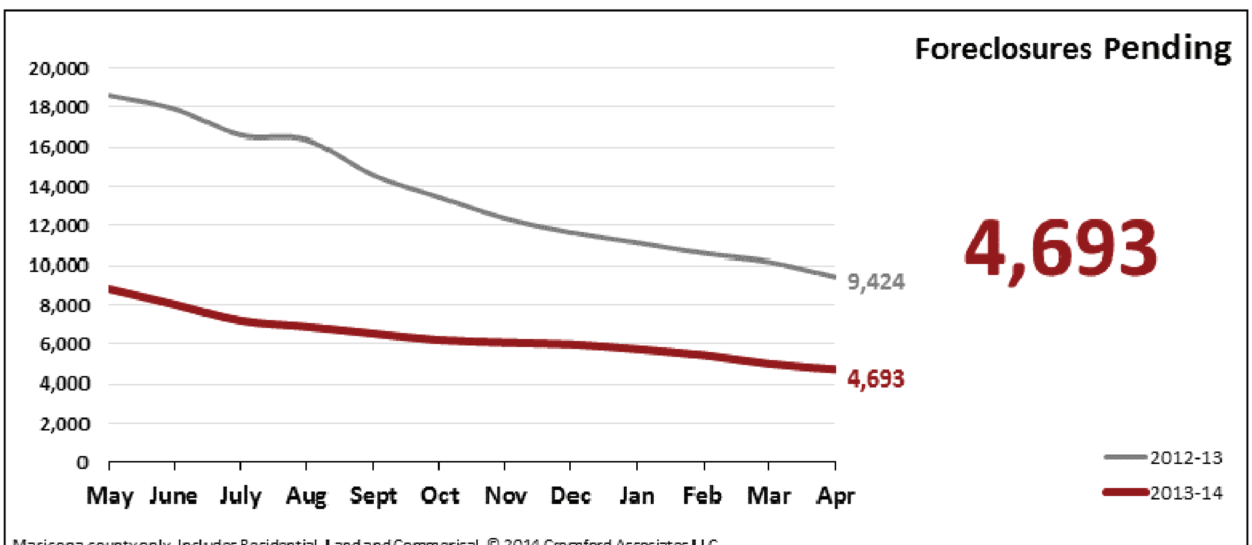
+9.9%, year-over-year median

THE ARMLS PENDING PRICE INDEX™

SALES PRICE FORECAST

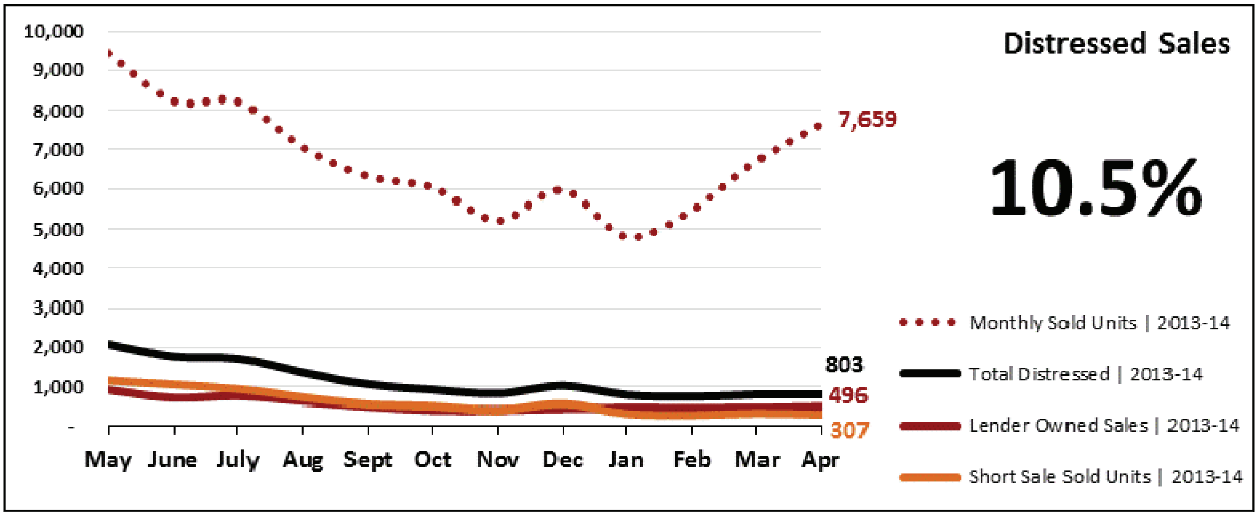


FORECLOSURES PENDING



-50.2%, year-over-year

DISTRESSED SALES

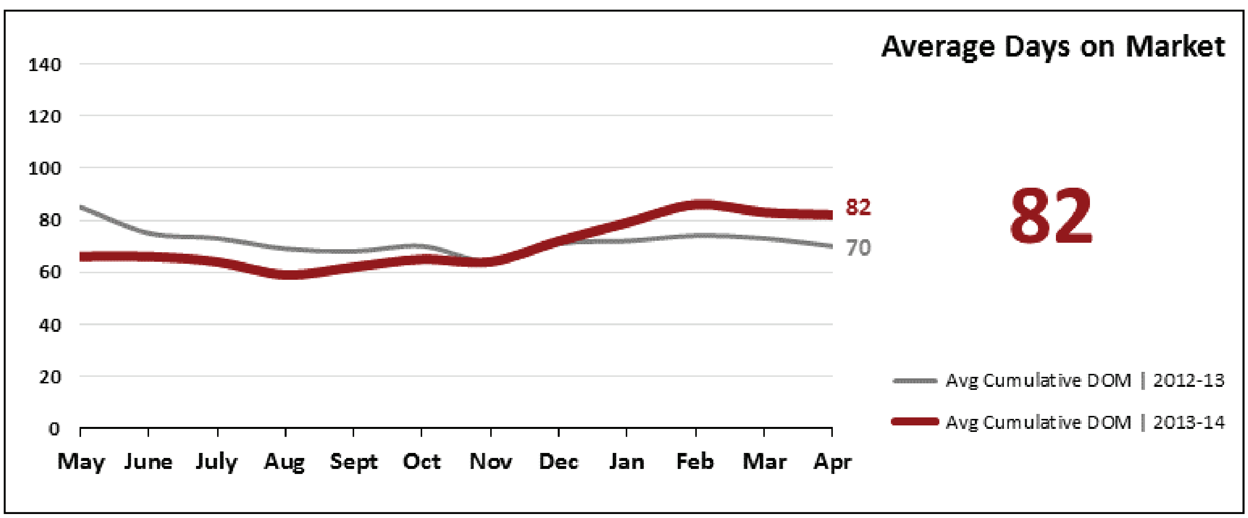


-72.5%, short sale units year-over-year

-50.0%, lender owned units year-over-year

-61.9%, total year-over-year

AVERAGE DAYS ON MARKET



+12, year-over-year

-1, month-over-month

COMMENTARY

by Tom Ruff of The Information Market

The median sales price for April 2014 landed at $189,000, which is up 1% month-over-month and 10% year-over-year. Taken at face value, these numbers indicate rising home prices but I would caution against this conclusion. In order to get a better idea of price movement we need to look at the July 2013 median sales price of $185,000. July 2013 signaled the end of a 20-month period of rapid price appreciation when the median sales price rose 70%. Over the last 10 months sales prices have remained relatively flat, wobbling between $180,000 and $189,000.

Sales volume in April 2014 was down 12.5% with 1,095 fewer sales taking place this year compared to April 2013. There were 7,659 closed sales in April 2014 compared to 8,754 last April.The decline in sales volume occurred entirely on the distressed side of the market with short sales down 809 and bank sales down 496 year-over-year. Comparing normal sales, we actually saw an increase with 210 more normal sales year-over-year.

Total inventory fell for the first time this year down 1% from March but 47.5% higher than last year at this time. Last month we discussed pent up demand in detail and at present, demand is still our primary challenge. Demand can change quickly but in the short term remains constant. Expect the imbalance between supply and demand to exert downward pressure on pricing later this year, most likely in August when demand historically declines and inventories historically rise.

The ARMLS Pending Price Index for May projects the median sales price will remain relatively unchanged at $190,000. At present, the current number of pending sale contracts are very comparable to last month indicating the sales volume in May will be similar to the volume in April. I have my suspicions that the number of UCB listings are overstated leaving the number of pending sales understated. I expect 1,400 fewer sales this May compared to last year when 9,436 sales occurred. Working in a vacuum in terms of current population numbers I find our present market challenging to interpret, or in the words of Yogi Berra, “It's tough to make predictions, especially about the future.”

Reading opinions and hearing various discussions on our current housing market and the real estate industry as a whole, there are many varying points of view. What causes the differing outlooks— perspective? The volume of business someone does and their income can influence an individual’s view.

People who will argue that we're in a balanced market and will point to a total inventory of 29,627, an inventory level considered typical. They will also point to a 3.87 months supply of inventory and an average days on market of 82. All of these numbers traditionally point to a balanced market. **But, if we look at MLS sales volume numbers they tell us we're not having a great year or a bad year.** In fact, if we look at the 14-year running average for MLS sales volume for the month of April there were 7,658 average sales, which is almost spot on to the sales volume in April 2014 of 7,659 sales.

Does the old adage hold true?

It's difficult to disagree with this perspective, unless another adage holds true — in periods of low demand a higher percentage of properties sold are marketed on the MLS. This begs the question: could MLS data be painting a rosier picture of our housing market than what actually exists? If we apply the same 14-year running average methodology for home sales in Maricopa County but look at public records, then April has averaged 9,681 home sales. This April, 8,197 home sales were recorded. The sale total for April 2014 is 15% below our 14-year running average. In addition, the 14-year running average compares only the total number of homes sold and does not account for the existing housing stock when the sales occurred. Today, there are a quarter of a million more homes in Maricopa County than existed in 2003. The reason for mentioning 2003 is that ARMLS sales volume this year has closely mimicked ARMLS sales volume in 2003. Publicly recorded affidavits of value tell us there were 23% fewer home sale transactions in April this year in Maricopa County than in 2003.

As stated earlier, I see demand as our primary challenge. As an analyst I can state I believe housing demand is 25% below normal, while an individual broker or agent may be in the midst of a very good year tilting their perspective in a more positive direction. While I see demand at present lacking I also see three potentially large pools of future buyers like millennials, boomerang buyers, and retiring baby boomers desiring an Arizona resort lifestyle. The logical question now is when will these potential buyers become homeowners? Last month in STAT we talked extensively about the boomerang buyer and their potential time frames. This month, Stephen Kim, an equity researcher with Barclays, talked about the return of the first time buyer, a trend he expects to emerge later this year. He further expects overall demand to return to normalized levels in 2016. Mr. Kim addresses the national housing market from a new build perspective, but much of his analysis can be applied to our local resale market as well.

HousingWire published the following summation:

Demand for homes is stalling according to the most recent ***report on mortgage applications*** *from the* ***Mortgage Bankers Association****. However, it may not last forever, according to analysts at* ***Barclays*** *(****BCS****). Equity researcher Stephen Kim just released an in-depth report titled: The Return of the First-Time Buyer. In it Kim gives three solid reasons potential homebuyers could enter the market. However, there remains a major barrier, he adds. HousingWire gives a snapshot of Kim's findings in the list below (the words are his).*

First the three positives:

1. Job growth is reaching an important threshold for improved household formation

The cumulative number of jobs created over the past several years has now reached the point where each new job will drive greater household growth.

2. Credit availability starting to loosen

Lenders' willingness to extend credit to borrowers in the entry-level "sweet spot" of 600-700 FICOs is gaining momentum.

3. Affordability still favorable

Buying a home is still ~20% cheaper than renting, and affordability is unlikely ever to be better, given rising interest rate and home price trends.

And here's the BIG negative:

1. Student debt remains a problem

Our analysis reveals that burgeoning student debt is the thorniest problem for the industry, particularly in light of new QM regulations.

"While the recent slowdown seems to have caught many observers by surprise, we have been expecting a 'mid-cycle correction' to emerge in FY14 since early last year. Thus, this period of slower growth is largely consistent with our view for how the housing market will recover back to normalized levels by 2016," Kim predicts.

When these anticipated changes in demand begin to emerge they will first appear in the number of pending sale contracts. These changes will be accompanied by an increase in the number of homes purchased with a mortgage. We will be monitoring these data sets closely over the next few months and will report on these trigger points. For those agents currently discouraged by the number of buyers in the marketplace, remember, demand can change quickly.