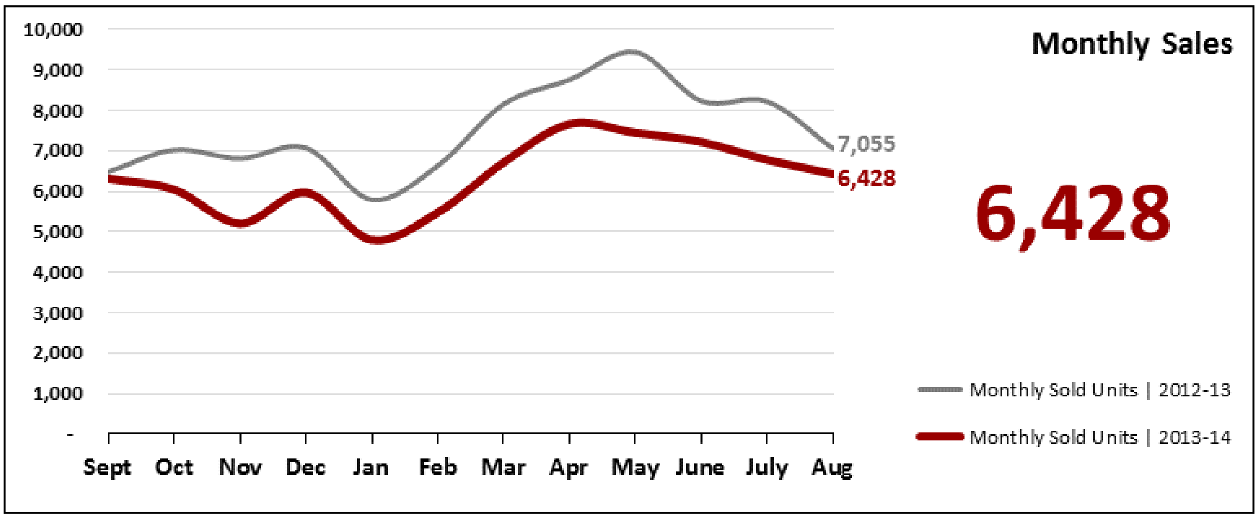
ARMLS® STAT - September 11, 2014

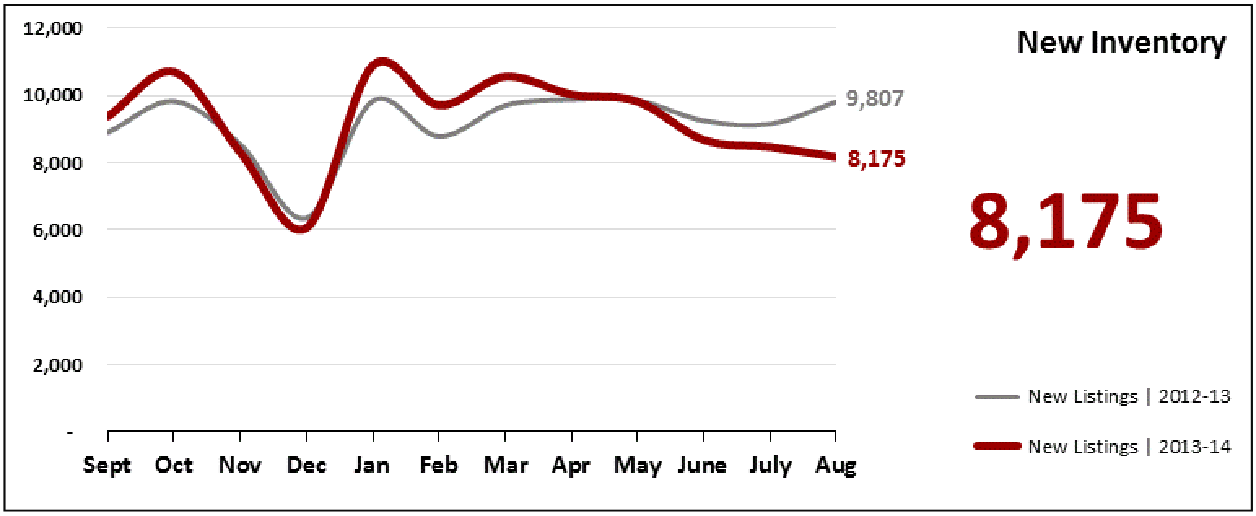
MONTHLY SALES



-8.9%, year-over-year

-5.1%, month-over-month

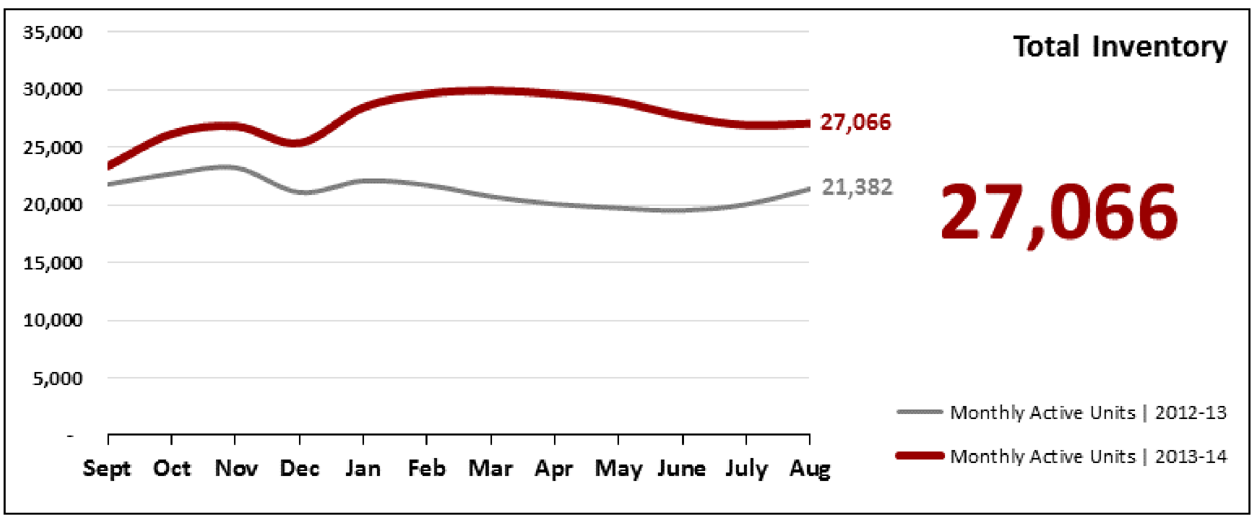
NEW INVENTORY



-16.6%, year-over-year

-3.5%, month-over-month

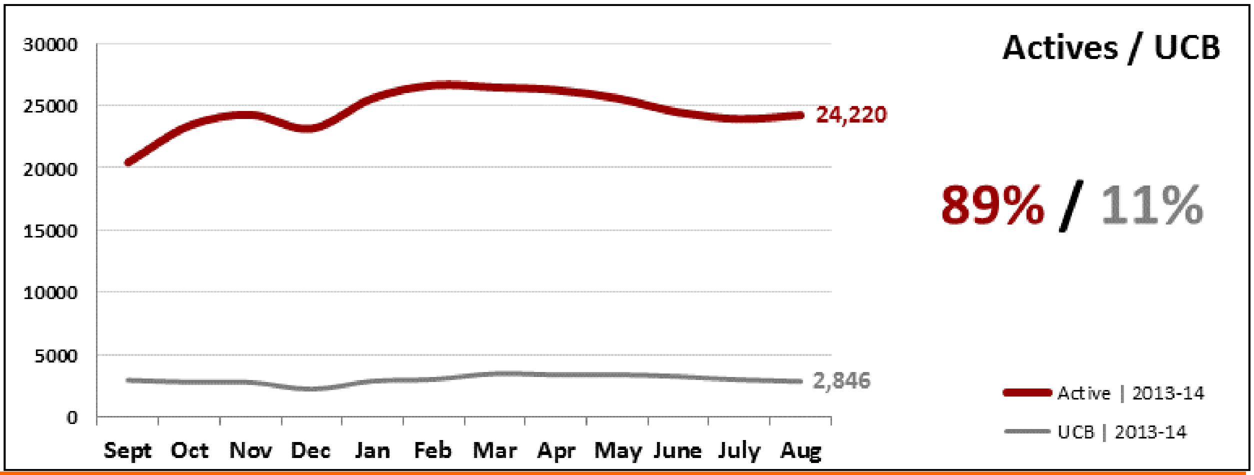
TOTAL INVENTORY



+26.6%, year-over-year

+0.5%, month-over-month

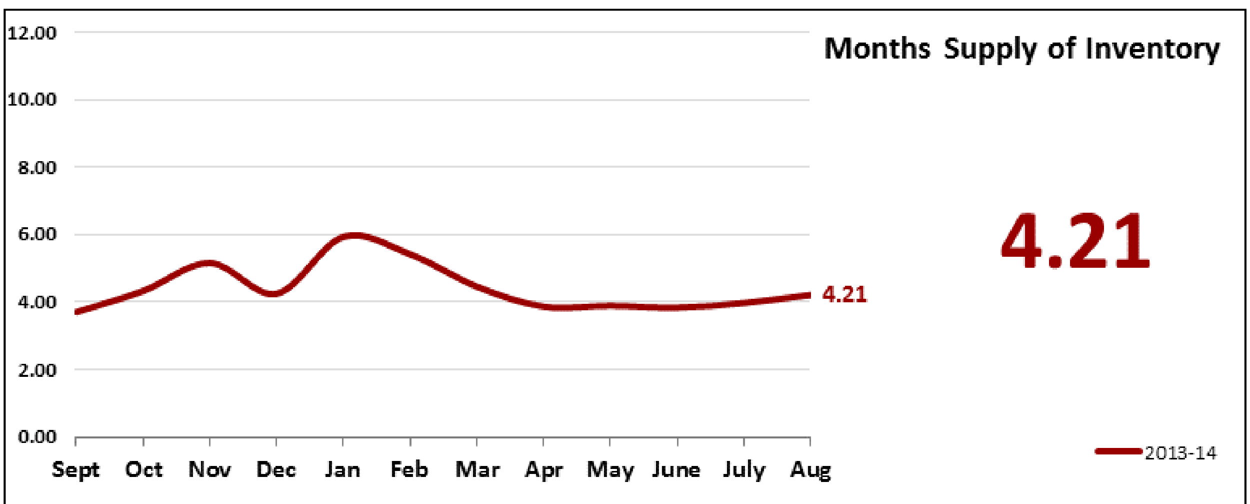
ACTIVES / UCB



11.1%, July 2014 UCB percent of total Active

10.5%, August 2014 UCB percent of total Active

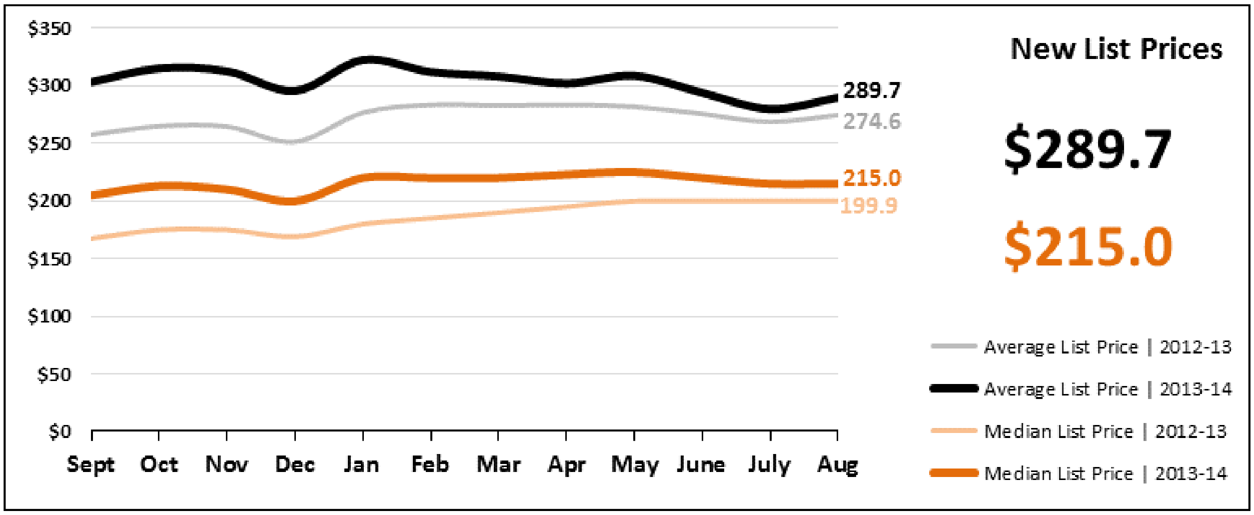
MONTHS SUPPLY OF INVENTORY



3.97, MSI July 2014

4.21, MSI August 2014

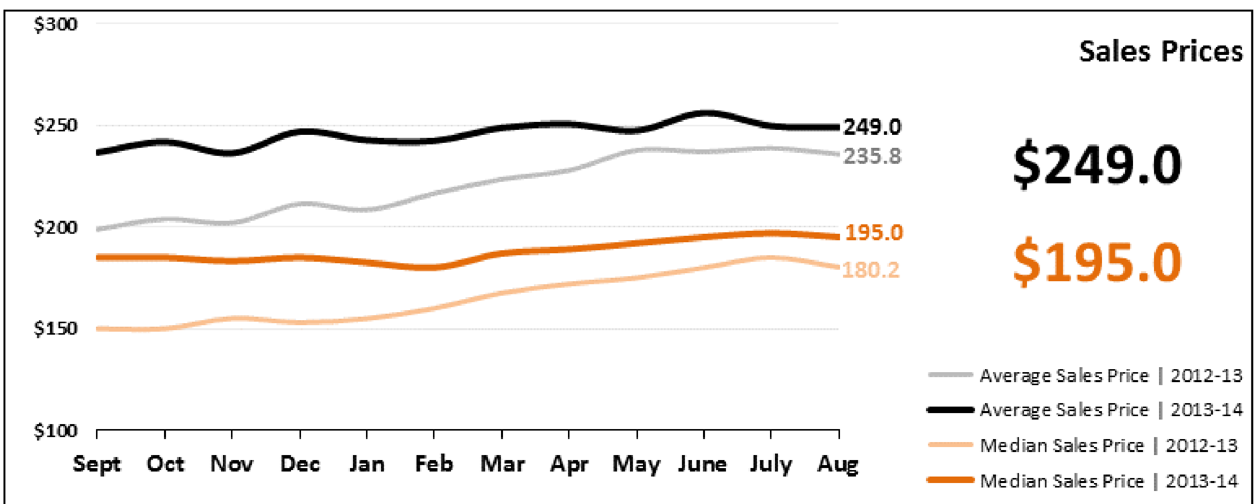
NEW LIST PRICES



+5.5%, year-over-year average

+7.6%, year-over-year median

SALES PRICES

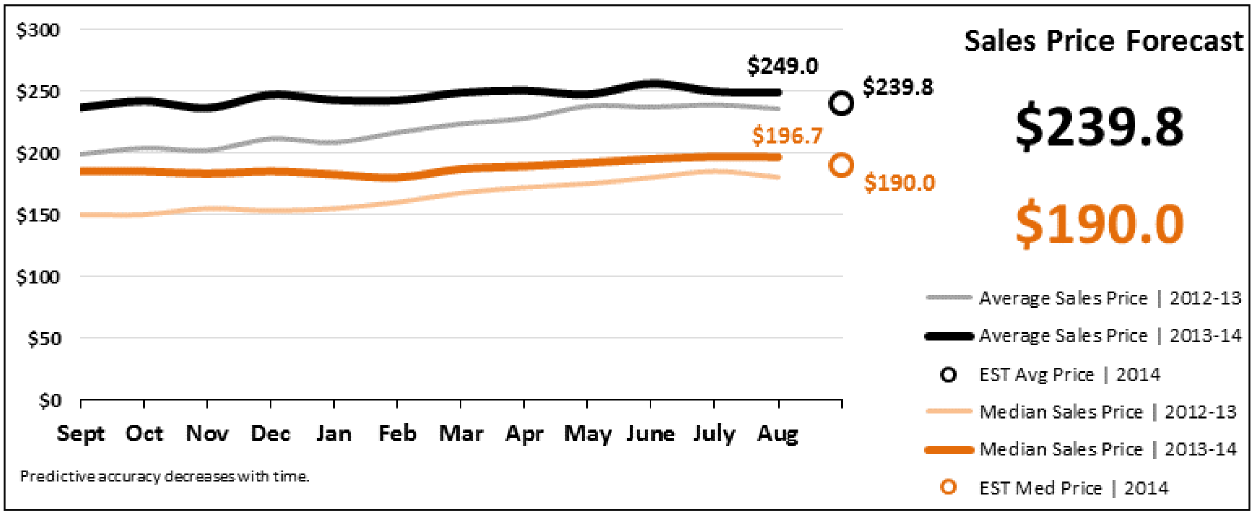


+5.6%, year-over-year average

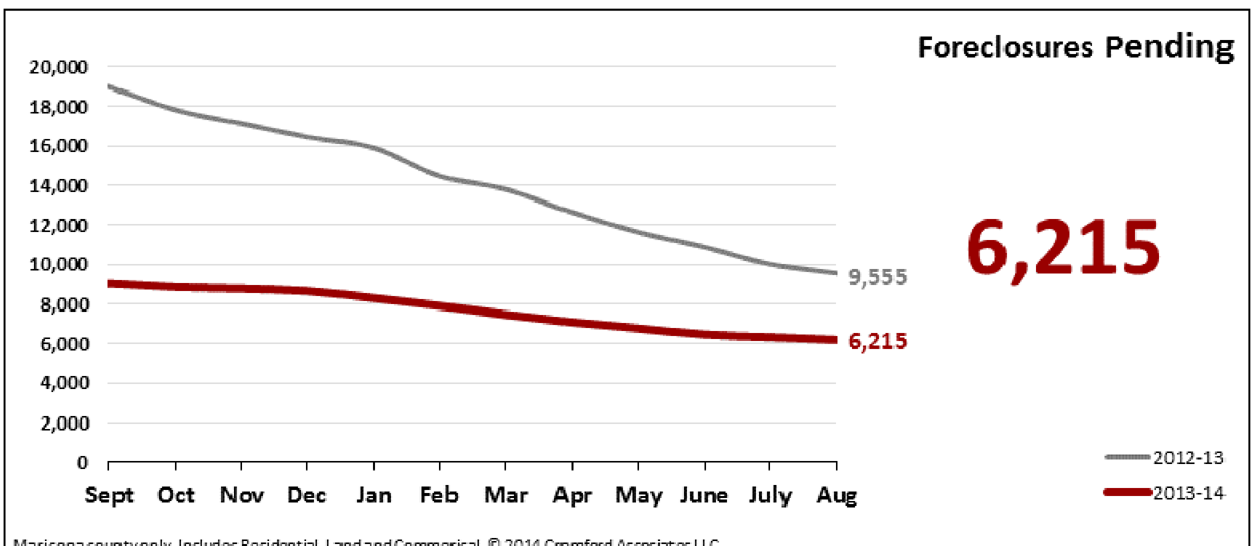
+8.2%, year-over-year median

THE ARMLS PENDING PRICE INDEX™

SALES PRICE FORECAST



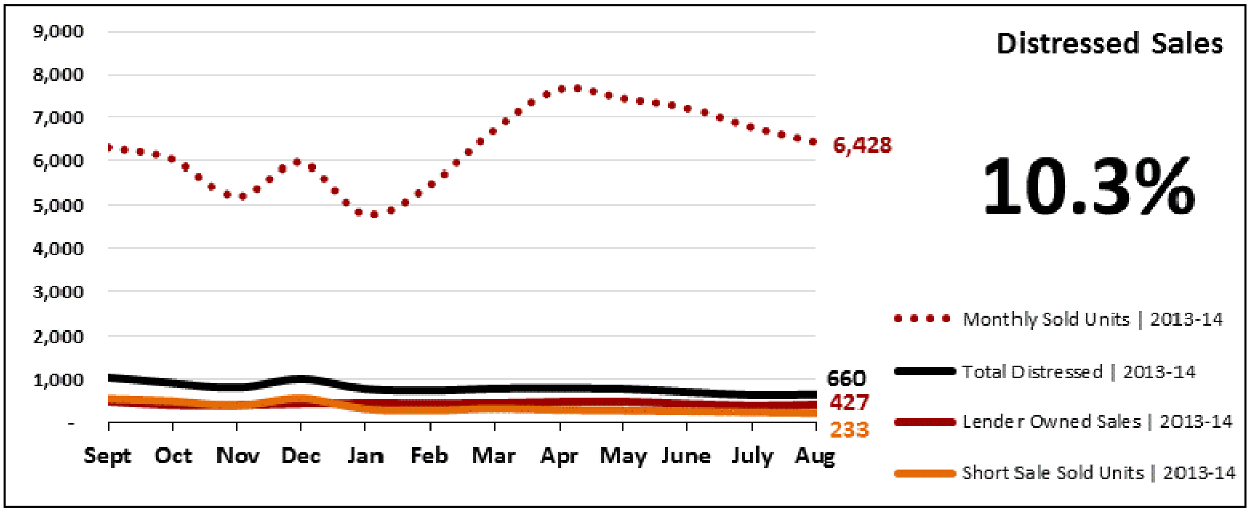
FORECLOSURES PENDING



-35.0%, year-over-year

-2.1%, month-over-month

DISTRESSED SALES

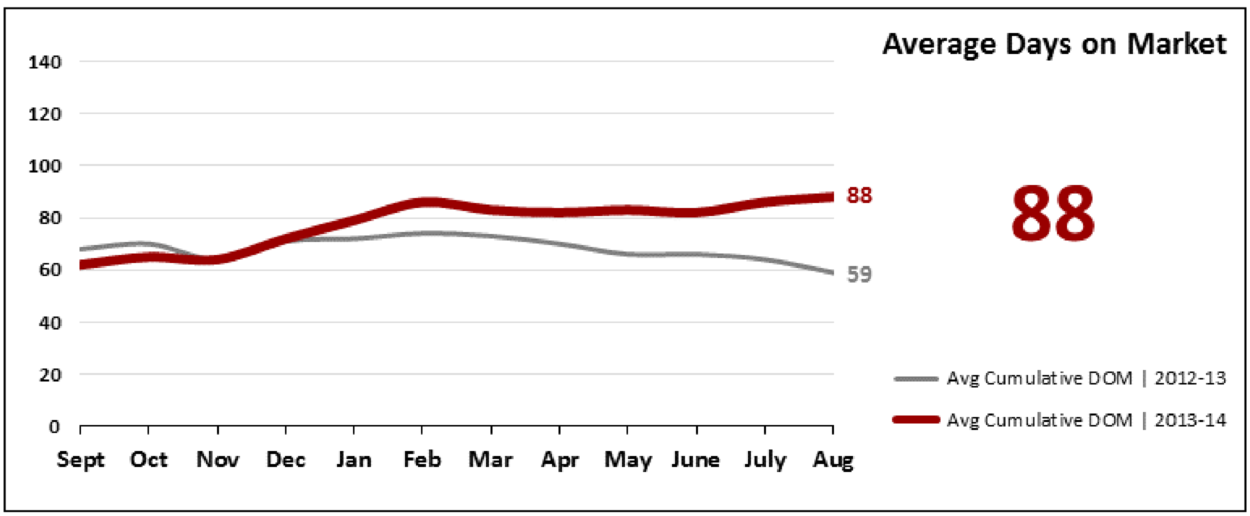


-68.0%, short sale units year-over-year

-32.3%, lender owned units year-over-year

-51.5%, total year-over-year

AVERAGE DAYS ON MARKET



+29, year-over-year

+2, month-over-month

COMMENTARY
by Tom Ruff of The Information Market

Does this sound familiar? *An uncertain period of waiting for a decision or resolution.* That's the definition of the word *limbo* and it perfectly describes our current market where low demand and a lack of new inventory have balanced the market into a standstill. This month I will share my thoughts as to why demand is low and why new listings activity has been extremely slow. I'll also look at the confusion surrounding automated valuation models and finish things up with the Pending Price Index (PPI).

Low Demand

We've never seen a low demand / slow new inventory equation like this before. How slow is sales demand? Through the first seven months of 2014, MLS sales volume has been running 17% lower compared to the same months in 2013. Total sales in August of 6,428 were only 8.9% lower than sales in August 2013 at 7,055. Yes, sales volume was higher last year but some interesting dynamics are unfolding inside the numbers. The number of normal sales in August 2014 was greater than the number of normal sales in August 2013, although total sales were higher in August 2013. The balance between distressed sales and normal sales has improved.

	August 2013	**August 2014**
Bank sales	631	427
Short sales	729	233
Normal sales	5,695 (80.7% of total sales)	5,768 (89.7% of total sales)
Total sales	**7,055**	**6,428**

With foreclosure inventories continuing to fall, normal sales will continue to grow as a percentage of total sales. In September of 2013, 6,314 total sales were reported in the MLS. We are projecting 6,150 sales in September. If correct, the September 2014 sales volume will only be 2.59% lower than the total sales in September last year. Fewer distressed sales, fewer investors and more traditional buyer translates into a healthier market, we just need a lot more of them. Furthermore, a large population base of first time home buyers is not yet moving into the market, causing pent up demand.

Many perspective homeowners find themselves in a philosophical penalty box, which is restricting the level of demand:

The Penalty Box
• Those who lost a home to foreclosure in the last 7 years or completed a short sale in the last 4 years are often ineligible for financing. People with stellar credit can easily qualify for a loan, people in the penalty box cannot, this is pent up demand. • A Strict lending protocol restricts demand as the government and lenders weigh the outcomes of making bad loans. **See this video here** or **this article** for more.

Lack of new inventory

On the new inventory side of the equation, the number of new listings in August was extremely low with only 8,175 new listings added. First in June, then July, and now again in August we've seen the lowest total of new listings for each of these months respectively in the last 14 years.

So, why is new inventory so low? The answer can be found when we analyze current homeowners and what impact they have on new inventory.

The Non-Equity Group

Homeowners who purchased a home in February 2005 to July 2008 or refinanced in this period will most likely have to sell their home for less than they paid, which contributes to a lack of new listings. Without equity, the pools of move-up buyers are eliminated, restricting new listings and demand. Short sales are part of this group and short sales are way down, this restricts new listings. Homeowner's without equity have limited options, unless they return to the market as a bank sale after having been foreclosed on. **Options:** stay put, short sale, or foreclosure.

The Equity Group

Homeowners who purchased a home before May 2004 and did not refinance between February 2005 and July 2009, should have equity. The possible equity can be seen when we compare the median sales prices now and back then. The current median sales price is $195,000, In January 2009 our median sales price was $130,000 and in February 2013 the median was $160,000. This group provides positive new inventory potential, mostly found in those trading up to another property.

Options: stay put or trade-up.

Investors who purchased homes between January 2009 and February 2013 to create rental income are happy collecting rents and are not interested in selling, this restricts supply.

The problem with Automated Valuation Models (AVMs)

Switching gears from the demand / new inventory problem, there is another issue perplexing the media and consumers alike. One of the worst things to come out the housing boom and subsequent crash and recovery is the perception that home values change wildly and frequently. This madness is further fueled by readily available computer models that remove professional intervention and hand out home values like clowns in a parade dispersing candy.

The companies providing these value estimates encourage consumers to check on home values frequently, implying the value of their home is in constant flux, even going as far as giving you a precise number as to how much your home value has changed in the last 30 days. In doing research for this commentary I checked on my personal residence. One nationally recognized leader in home estimates reported my home falling nearly 33% in a 60-day period.

No wonder there is confusion amongst the media and general public. Simply put, pricing metrics can be confusing, particularly when left in the hands of a layperson, or worse, someone with an agenda. Don't get me wrong, I'm all for transparency and sharing data, but let's couple that with quality data and professional insight.

Historically, home prices move quite slowly where the common theory is that long-term appreciation should be pretty close to the general rate of inflation, which is currently running about 2%. The median sales price was $185,000 in July 2013 and September 2013, whereas the median price August 2014 was $195,000, a 5.4% increase. The average price in August 2013 was $235,800 and $249,000 in August 2014, a 5.6% increase. The median and average prices are a summation of all homes sold through ARMLS. If we shift the paradigm and view only Maricopa County public records data and compare the median sales price for normal sales only, and compare the median price for August 2013 to August 2014 the end result is 1.7% higher.

No matter how many different ways I slice and dice the data, home prices over the last 13 months have been remarkably stable, and even though the number looks painstakingly precise, I guess I'll just ignore the latest email telling me my home value just decreased $103,389.

The Pending Price Index (PPI)

The PPI projected the median sales price in August to be $194,900, with the actual median price coming in at $195,000. Our sales volume projection for August came within 1.2%. We projected 6,350 sales and the actual sales for the month landed at 6,428. For next month, the ARMLS Pending Price Index is projecting declines in both the median sales price as well as the average sales price. Anticipated declines in September can be attributed to modest downward pricing pressure as well as seasonable patterns. We're projecting a median sales price of $190,000 with sales volume of 6,150.