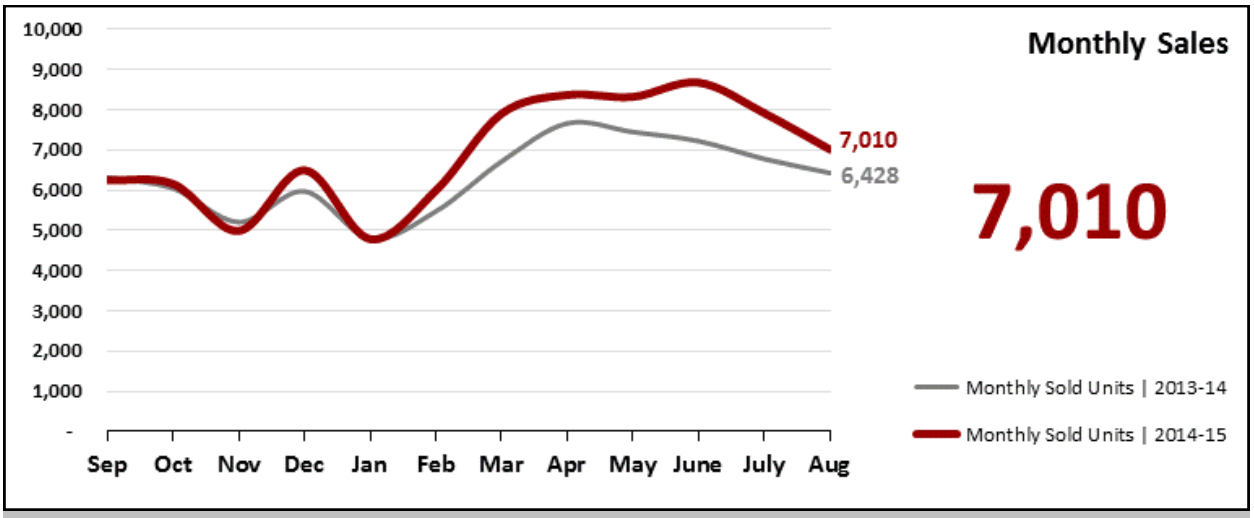
ARMLS® STAT - September 22, 2015

MONTHLY SALES



+9.1% year-over-year

-11.4% month-over-month

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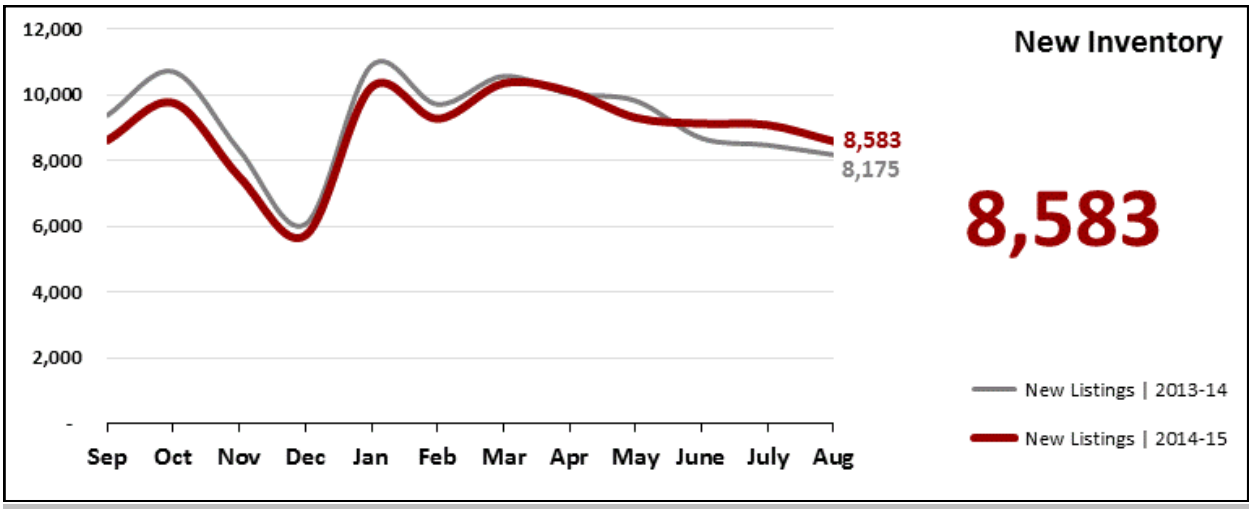
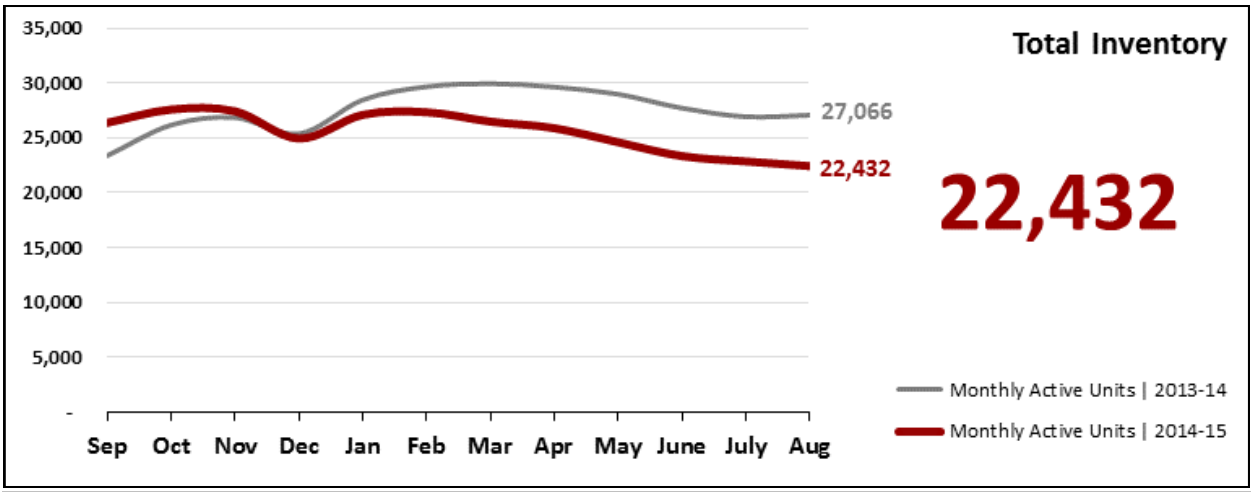
NEW INVENTORY



+5.0% year-over-year

-5.5% month-over-month

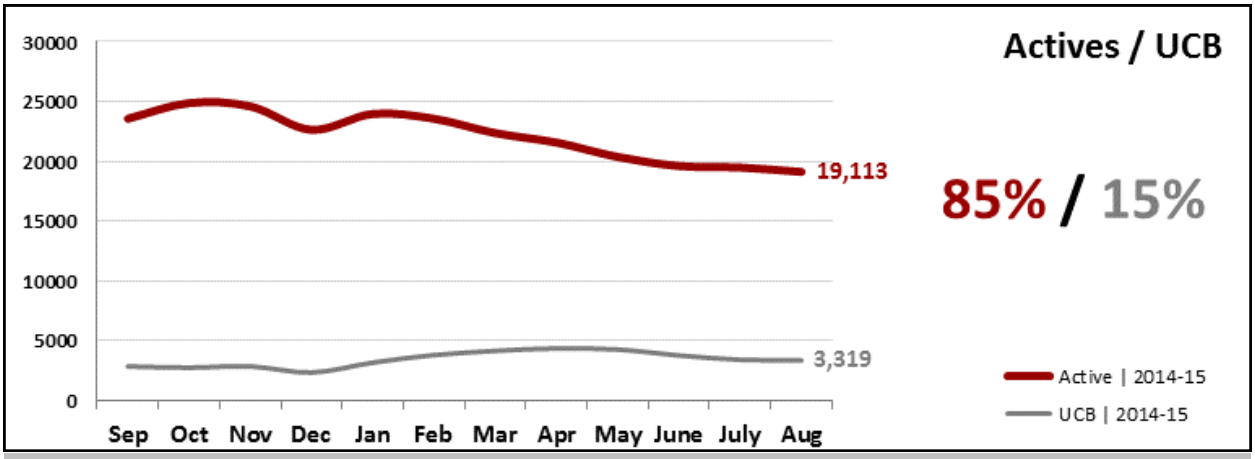
TOTAL INVENTORY



-17.1% year-over-year

-1.9% month-over-month

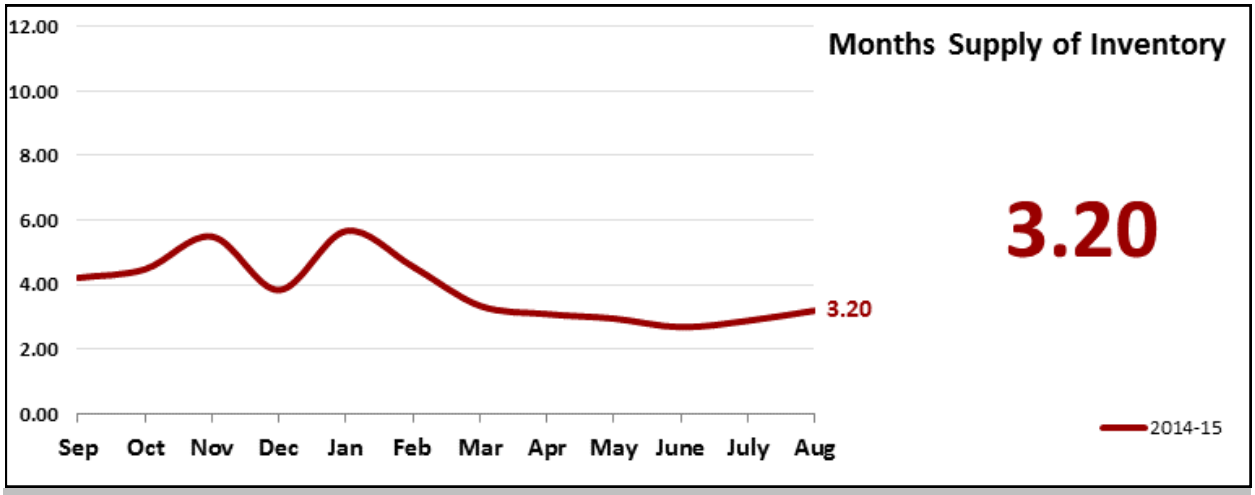
ACTIVES / UCB



14.8% JULY 2015 UCB percent of total Active

14.8% AUG 2015 UCB percent of total Active

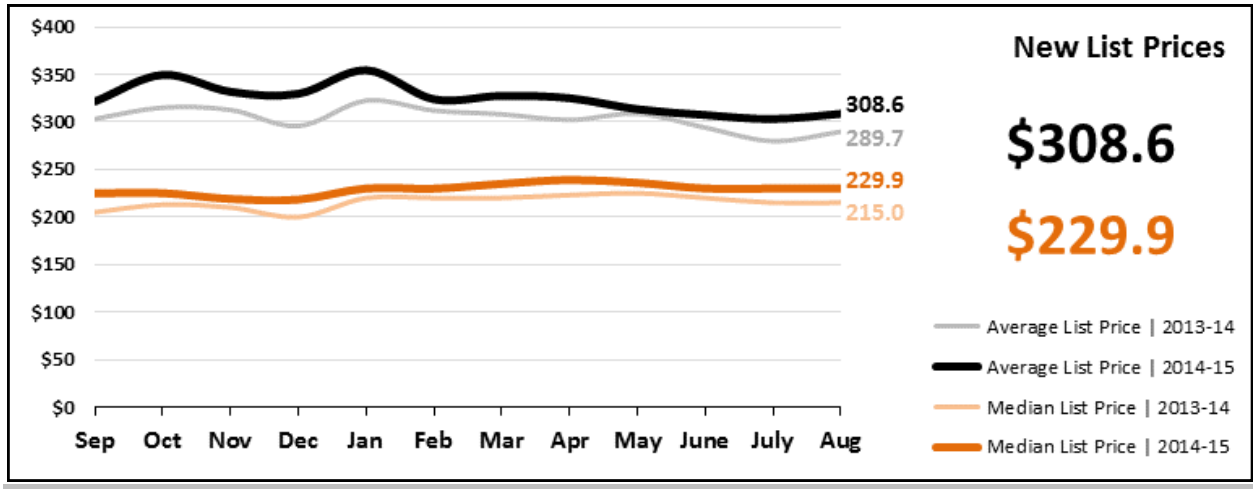
MONTHS SUPPLY OF INVENTORY



2.89 MSI JULY 2015

3.20 MSI AUG 2015

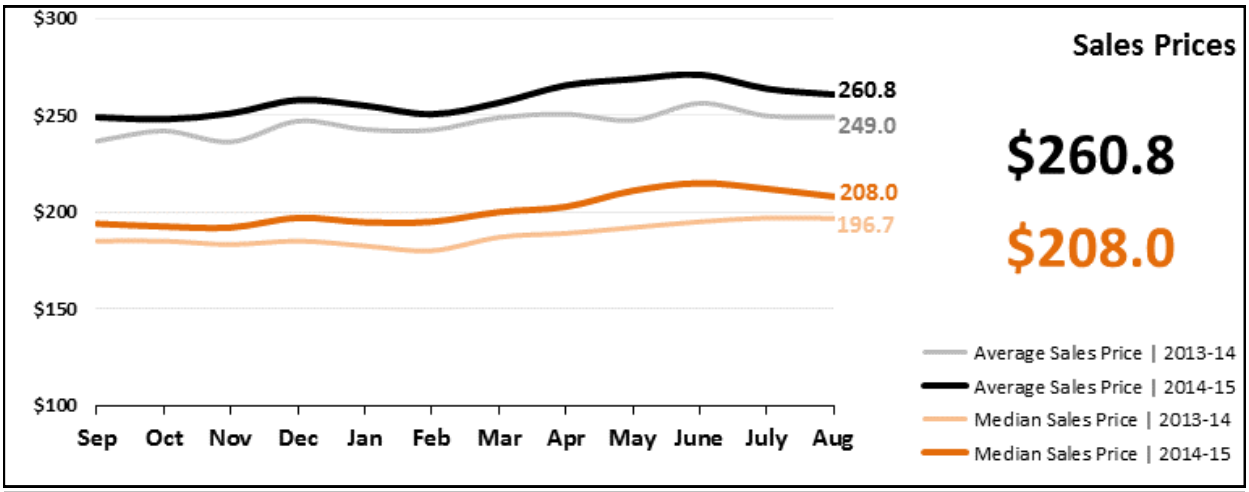
NEW LIST PRICES



+6.5% year-over-year average

+6.9% year-over-year median

SALES PRICES

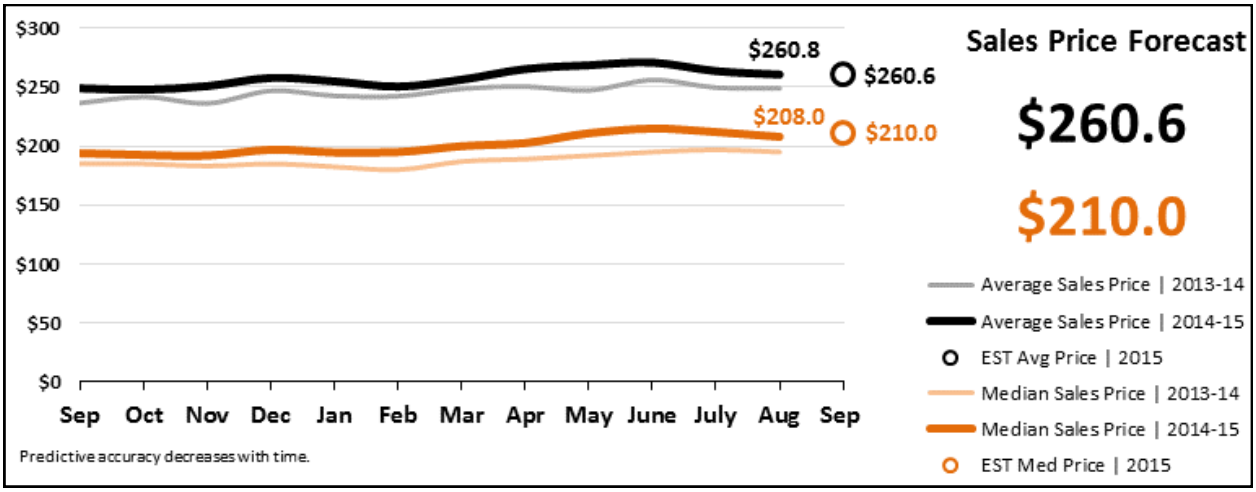


+4.7% year-over-year average

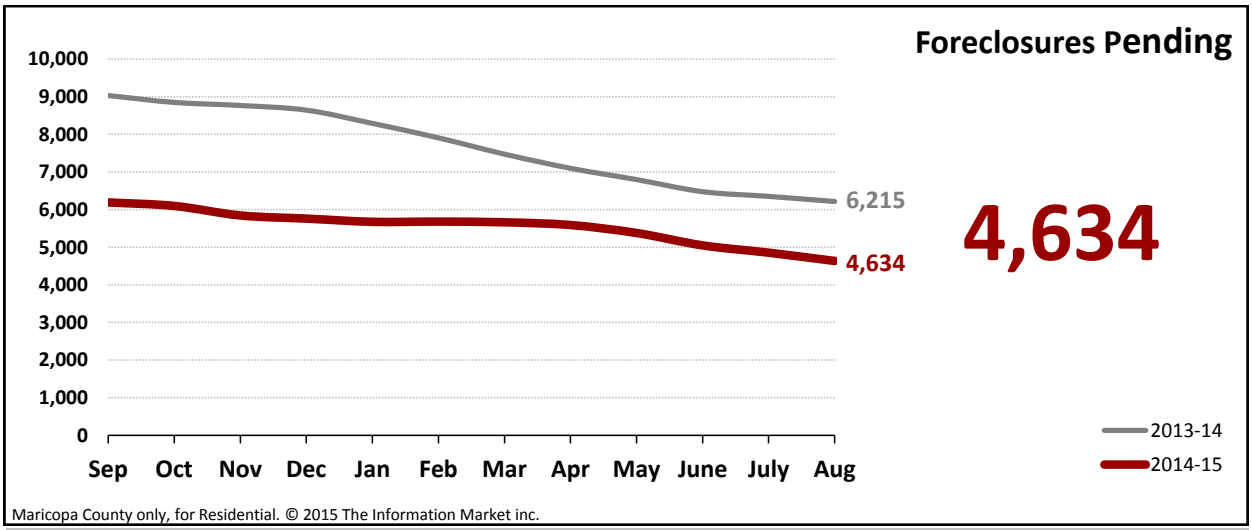
+5.7% year-over-year median

THE ARMLS® PENDING PRICE INDEX™

SALES PRICE FORECAST



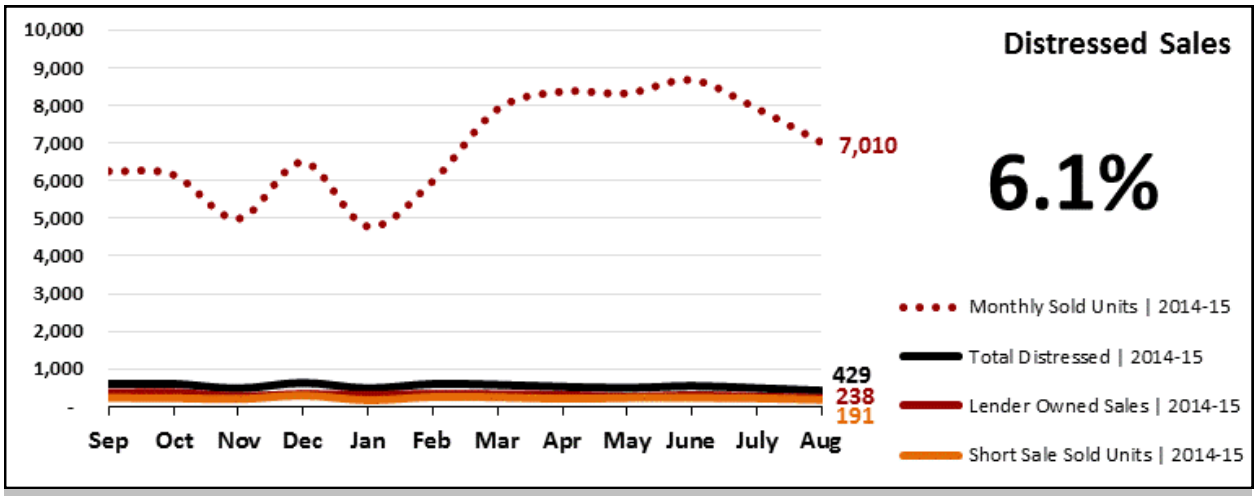
FORECLOSURES PENDING



-25.4% year-over-year

-4.5% month-over-month

DISTRESSED SALES

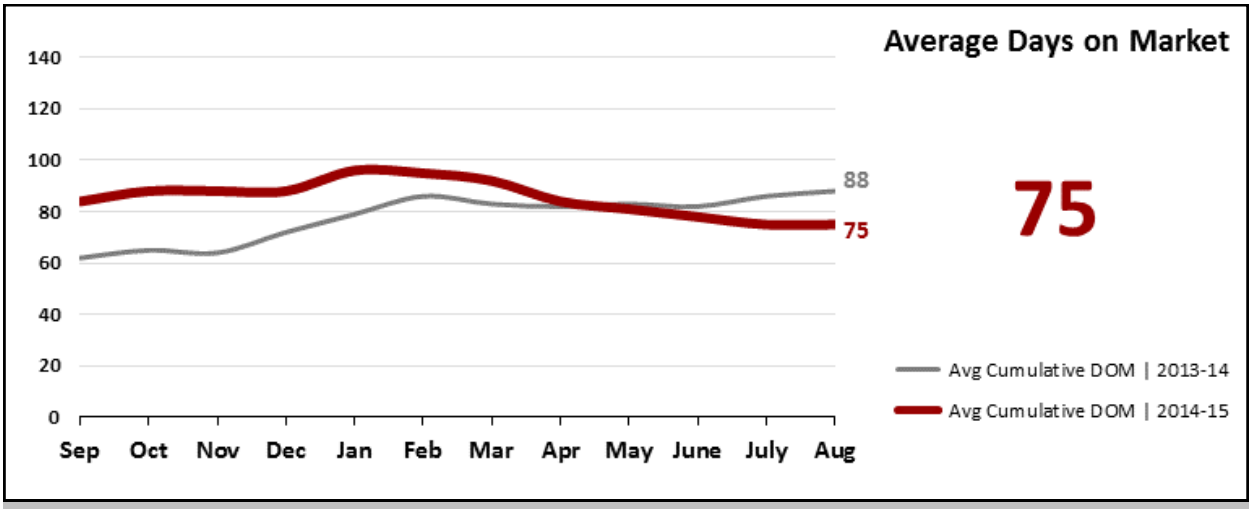


-18.0% short sale units year-over-year

-44.3% lender owned units year-over-year

-35.0% total year-over-year

AVERAGE DAYS ON MARKET



-13 year-over-year

0 month-over-month

COMMENTARY

by Tom Ruff of The Information Market

Our housing market continues to show slow and steady improvement. On a year-over-year basis distressed inventory is down, foreclosures are down, traditional buyers are up, purchase money mortgages are up and new construction is up. Each of these metrics continues to improve, a repeat of what happened last month. Sales volume was up 9.1% year-over-year while the median sales price increased 5.7% and average sales price increased 4.7%. We saw month-over-month declines in sales volume and prices, as expected, following seasonal patterns. With no monthly surprises, our attention has been placed on the negative equity reports.

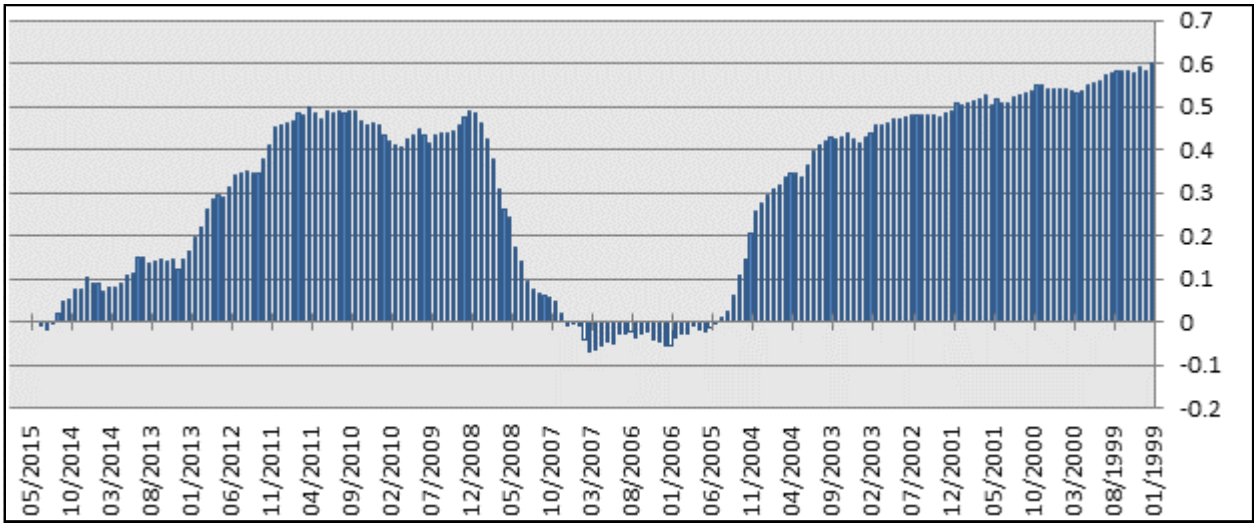
Negative equity is fancy talk for homeowners who owe more on their mortgages than their houses are worth. Many call it being underwater. For the purposes of our analysis we will be looking solely at public records data for Maricopa County.

The median resale price for homes in Maricopa County peaked in May 2006 at $253,418. This is meaningful because summer 2006 is the epicenter of negative equity in our market. The 227,000 foreclosures, which cleared a large chunk of negative equity from our market, and the 35,000 short sales we've experienced have been mostly from this period.

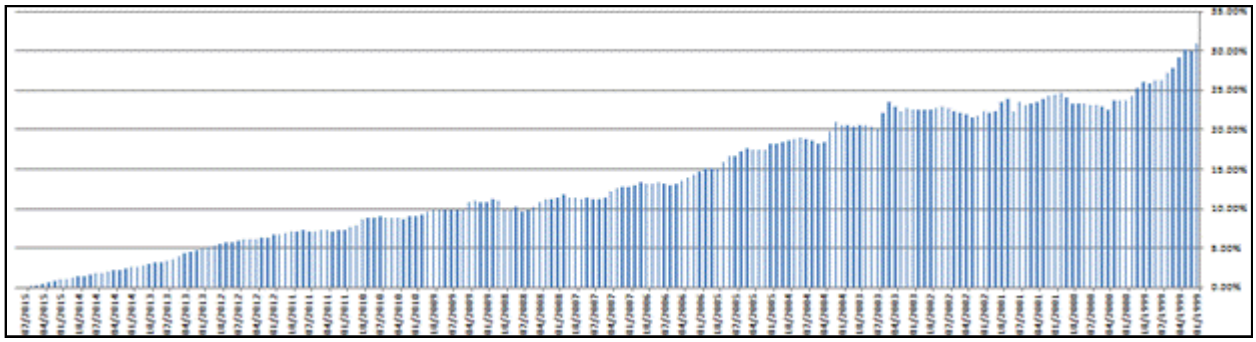
Today, foreclosures are a trickle, averaging 223 per month. The majority of homes heading to foreclosure are from the bubble days. 96.2 % of our mortgages in Arizona are current according to Black Knight. We rank the 8th lowest in the U.S as only 0.5% of our mortgages are in foreclosure.

The chart below shows the percentage of equity a home owner would have based on the time the home was purchased. Assumptions made in building the chart: zero down payment, mortgage and sales price are equal, 30-year fixed mortgage, never refinanced, interest rate based on the time the loan originated, value based on median sales numbers. The worst negative equity point on this chart occurs in July 2007 and is 0.0679%.

Average Estimated Percentage of Equity Based on Purchase Date



It has been 113 months or 9 years, 3 months since median prices peaked. I know it's common sense, but if you pay your mortgage as agreed, you will see your equity increase. The chart below shows the reduction over time based on Freddie Mac's published monthly average commitment rate on 30-year fixed-rate mortgages. Note: The chart starts in 2015 and goes backward.



An example of how this works: If a home was purchased in May 2006 for the median sales price of $253,014 and was financed 100% with a 30-year fixed interest rate of 6.27% and each payment was made as agreed, the current balance due would be $217,587. By paying down the mortgage in this example, negative equity would have decreased $35,426.

ENTER INFORMATION	
Principal	253014
Interest Rate	6.27
Length of Loan in Years	30
Number of Payments Made	110
Remaining Balance	217587.11

A homeowner that purchased their home 13 months ago would have increased the equity in their home 5% through appreciation and would have reduced their mortgage by 1.72%.

We've received many questions regarding underwater homeowners and I think the reason has to do with a report published by Zillow entitled: *Q1 2015 Negative Equity Report: After Three Long Years, The Hard Work Begins Now.*

In their report, Zillow states there are 146,948 homes in the Phoenix metro area with negative equity. The report claims 19.0% of all homes with a mortgage are upside down. They further report 43.3% (63,628) of the underwater owners owe between 100% and 120% of their home value and the other 56.7% (83,320) owe more than 120%. The average amount of negative equity is -$87,676 and the average percentage by which homeowners in metro Phoenix are underwater is -42%. The Zillow Home Value Index for the first quarter was $201,400 and the decline in the Zillow Home Value Index from the peak was -26.9%.

However, I find it very difficult to comprehend how a market (using their numbers) with home values below their peak by 26% and while 96.2% of our mortgages are current can have the average percentage by which homeowners are underwater be -42%.

It also appears to me, they may have compared their -$87,676 average amount of negative equity, which seems extreme, to their home value index based on median prices. I can only imagine how challenging their task was to know the value of every home and the outstanding balances of every mortgage, then match these two numbers together. After reading the report, I now understand why we've received so many questions.

ARMLS Pending Price Index

Our last Pending Price Index projected an August median price of $210,000 with the actual median reporting at $208,000. Our sales volume projection was 7,200 with actual sales of 7,010. Looking ahead to September, the ARMLS Pending Price Index projects a median sales price of $210,000. In the last 14 years the median sales price has risen five times, fallen seven times and had no change twice between September and October. We begin September with 6,276 pending listings and 3,319 UCB listings giving us a total of 9,595 residential listings under contract. This compares to 9,726 listings under contract at the beginning of August. The September 2015 sales volume will undoubtedly exceed September 2014 (6,252), but should be lower than the total of 7,010 in August 2015. STAT is projecting 6,850 home sales in September. It should be noted, the perceived slowdown in our market is strictly seasonal as the sales volume in September is almost always less than August.