

September 17, 2010

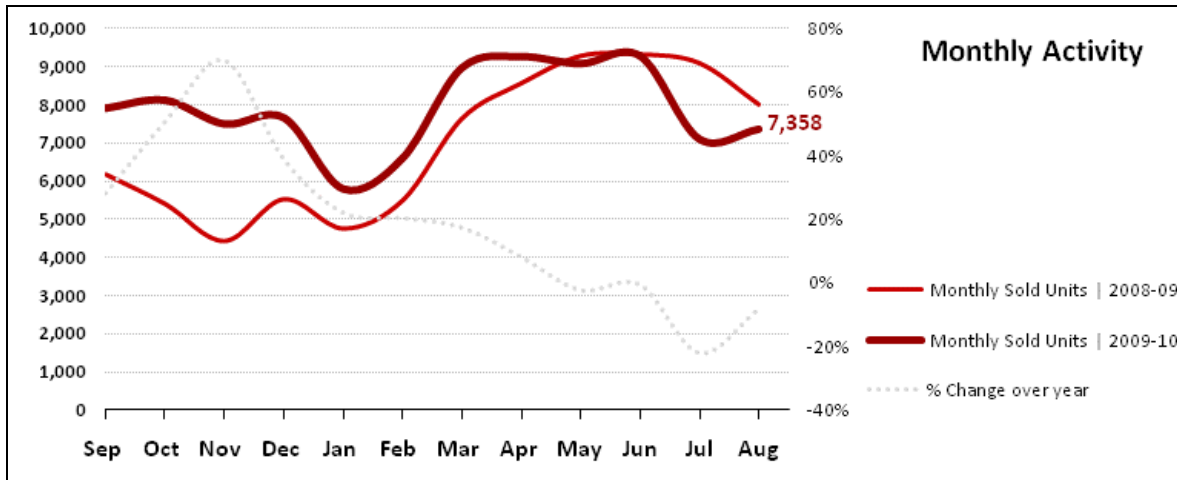


SALES Month over Month

Sales took a precipitous drop in July, mirroring the national reaction to the end of the first time home buyer incentives. August sales showed upward movement, suggesting that the market supply and demand are naturally correcting themselves after the home buyer tax credit accelerated purchases by buyers who were already in the market and shopping. Total sales in August of 7,358 increased 3.6% over July, but were well below the high record for 2010 of 9,280 set in June. It is too early to predict if the increase in August is the first step back to an upward trend that will continue into the fall, but as of this writing ARMLS is projecting 7,460 sales closing in September which would show continuing strength in sales. Every year from 2001 through 2007, September through December sales experienced a typical seasonal slowdown. In 2008 and 2009 the seasonal slowdown was more spasmodic, down one month and up the next. As economic recovery news trickles in, some of it good and some of it disappointing, the market will probably continue to vacillate in reaction to inconclusive economic intelligence.

SALES Year over Year

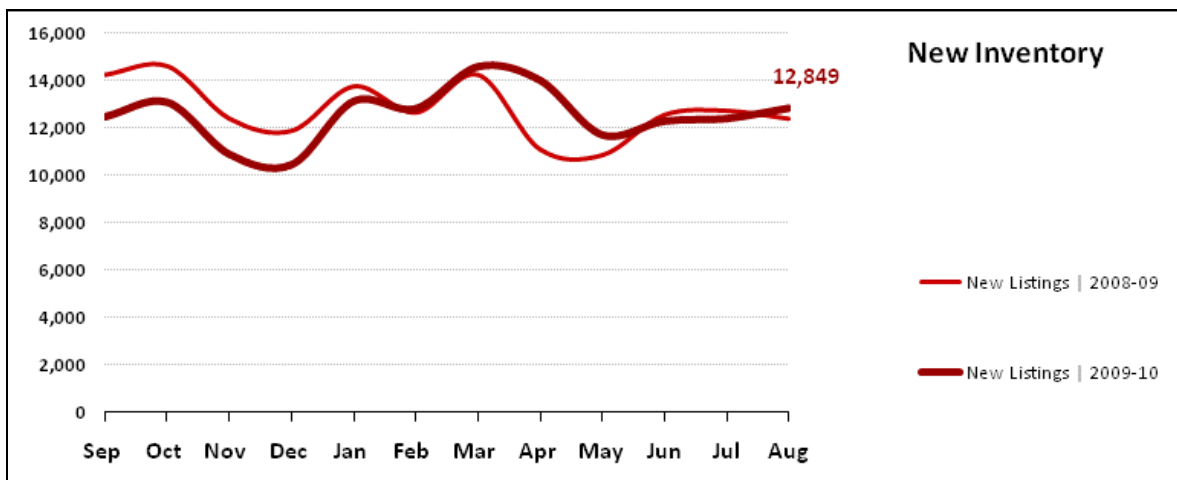
In 2009, there were 93,308 total residential sales, the third highest total since 2001, topped by 98,922 in 2004 and 104,725 in 2005 at the height of the boom. Through August, there were 63,428 sales, an average of 7,928 sales per month. If the market follows the pattern of 2008 and 2009, and does not experience the typical seasonal slowdown of the earlier part of the decade, average sales extrapolated out through the end of the year could approach or top 2009 somewhere in the 95,000 total sales range. Natural pent up demand to buy and sell is restrained by low consumer confidence and fear. The mix makes predictions with any high degree of accuracy difficult.



NEW INVENTORY

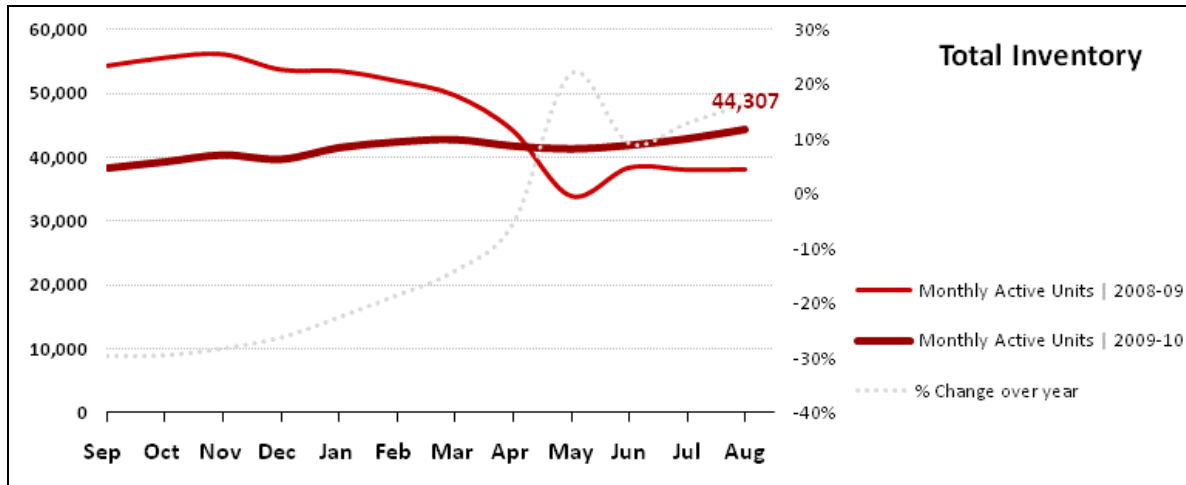
New listings added to the market increased from 12,407 in July to 12,849 in August. This represents a 3.6% increase over both the previous month and year. In August, 4,051 or 31.5% of new listings were new short sale listings. This represents a 4.9% increase in new short sale listings over the previous month. Short Sales as a percentage of all new listings have remained steady at around 30% for the past seven months. The relatively new Fannie Mae (FNMA) Housing Affordability Foreclosures Alternative (HAFA) program launched on April 5, 2010 could lure more reluctant sellers into the market. As more servicers get involved, and agents get comfortable and knowledgeable enough to help eligible sellers take advantage of the program, we could see a higher number of new short sale listings as a percentage of new inventories in the future.

While the ratio of lender owned to short sale listings has climbed steady since the first of the year, the cumulative total of distressed properties will continue to dominate listings new to the market (currently 62.5% in August). We can expect this trend to continue for some time.



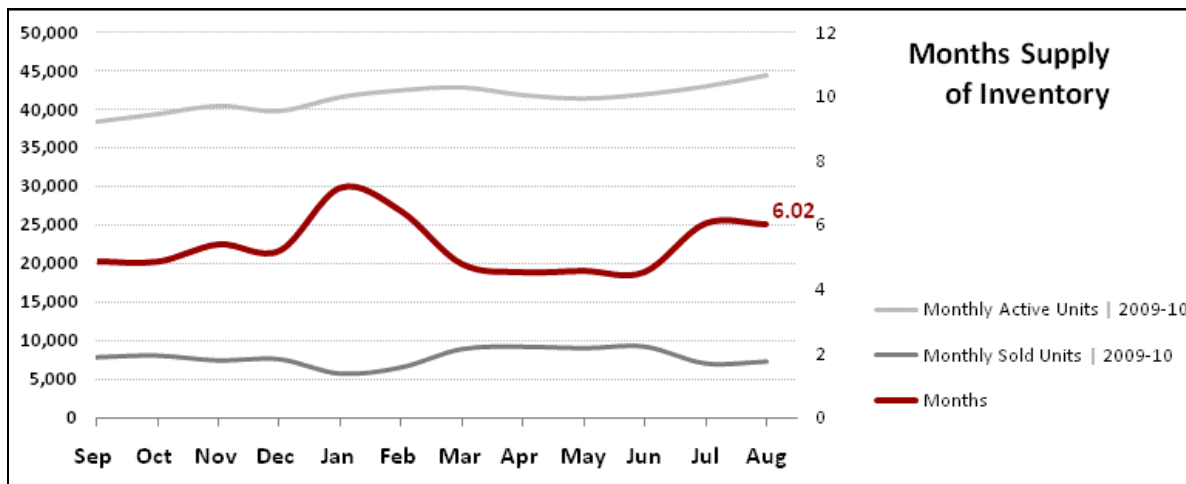
TOTAL INVENTORY

Total inventory has been vacillating around the 40,000 mark between September 2009 and June 2010. In August total inventory increased to 44,307, representing a 16.3% increase over August 2009 and 3.3% increase over July, 2010. Since the number of sales increased 3.6% in August, the increase in total listings cannot be attributed to fewer transactions closing, but instead must be accounted for by fewer listings moving into other off market statuses, as evidenced by a slight increase in total market time per listing.



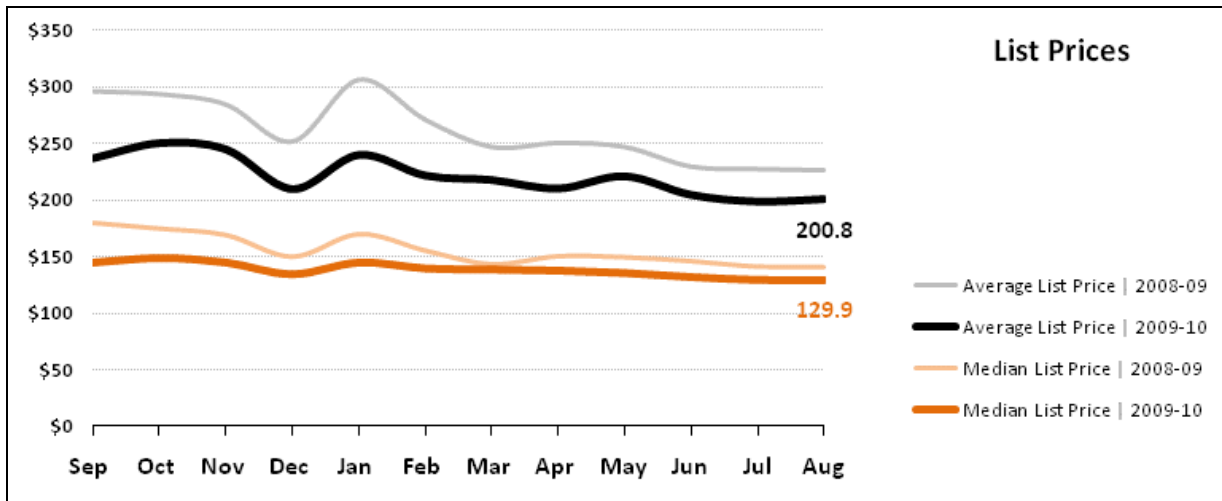
MONTHS SUPPLY OF INVENTORY (MSI)

Months supply of inventory is a market wide barometer of supply and demand. While it does not accurately represent smaller market niches, it can be used as a macro view of the overall supply and demand balance. It is generally held that Months Supply of Inventory less than five months represents a seller's market. The four to five Months Supply from March through June was indicative of a seller's market. In July, the Months Supply rose to 6.04 months and has remained approximately the same (6.02) in August, indicating that the market is tipping again toward a buyer's bias. The two month increase in supply creates downward pressure on pricing. It is too early to know if the downward pressure will be sustained, since two months does not a trend make. Time will determine if this is the first step toward a feared second bottom in the market, or a temporary reaction to the slowdown precipitated by the end of the first time home owner incentives.



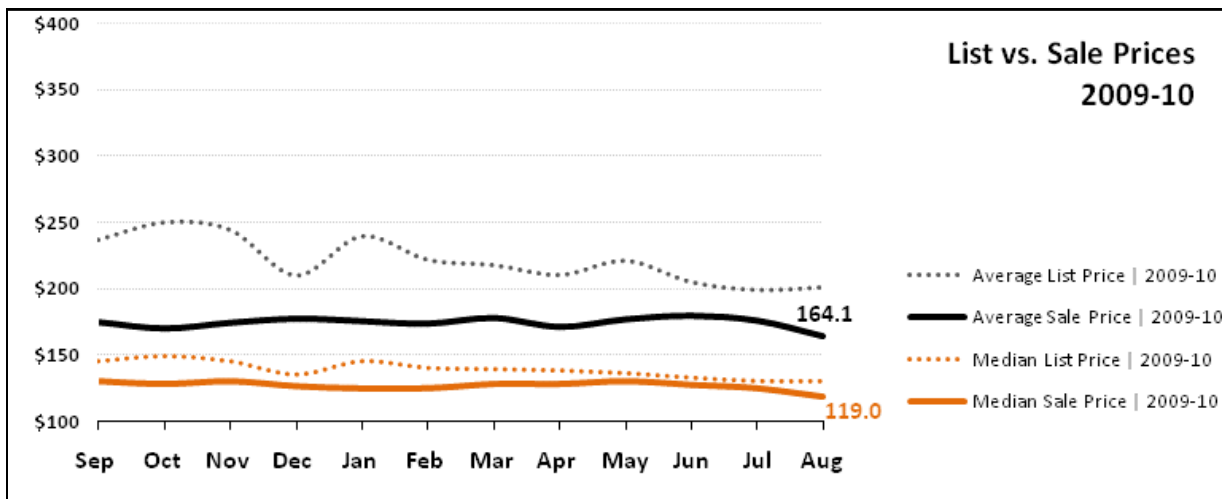
LIST PRICES

Median List Price declined for the seventh month in a row to \$129,900 in August, down only slightly from July's median price of \$130,000, but down enough to set a new ten-year record for lowest Median List Price. The average list price rose only slightly to \$200,800 up from July's record low average of \$198,700. Overall, average list price has been declining since January (with the exception of May), representing an 11.5% decrease over the same figure in August of 2009. Lender attempts to liquidate inventory will continue to exert downward pressure on pricing as a disproportionately large number of total inventory are short sales or foreclosures.



SALES PRICES

After a high of \$130,000 in May, the Median Sales Price has continued downward 4.8% from July's \$125,000 to \$119,000 in August, below the predicted \$125,000. Following the predicted downward trend, the Average Sales Price took an even larger than predicted drop (6.8%) from \$176,100 in July to \$164,100 in August. After fourteen months of the Average Price above \$170,000, the August number is disappointing. Downward pricing pressures are byproducts of increased inventory, a market dominated by lender owned homes and longer days on market. All these indicators point to a struggling market with a long climb back to normalcy.



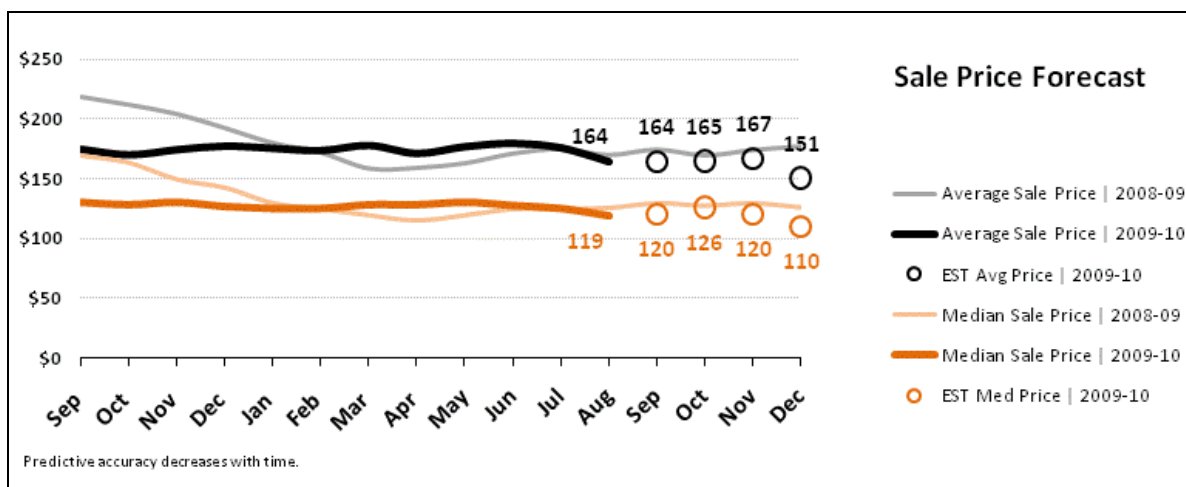
THE ARMLS PENDING PRICE INDEX™

The ARMLS Pending Price Index™ is a predictive tool unique to ARMLS. It predicts the Average Sales Price and Median Price four months into the future based on the pending inventory in the Arizona Regional Multiple Listing System.

The Median Price according to the ARMLS PPI should remain relatively flat from August to September at \$120,000. Current pending prices predict that the Median Price will rise to \$126,000 in October only to fall again to \$120,000 in November, and drop 8.3% in December to \$110,000. The predictive accuracy decreases the further into the future it goes, so the discouraging December figure, which is not based on enough sample data to be statistically significant, could have a reprieve as more pendings are added through the fourth quarter. However, an optimistic flourish at year's end does not appear likely.

The Average Sales Price follows a similar pattern. ARMLS PPI predicts that September and October Average Price to be very close to August at \$164,100 and \$164,800 respectively, with a rise in November to \$166,700. December's prediction is a drop of 9.5% to \$150,800. As with the Median Price, the December prediction is less accurate since the pool of pending data is much smaller four months out.

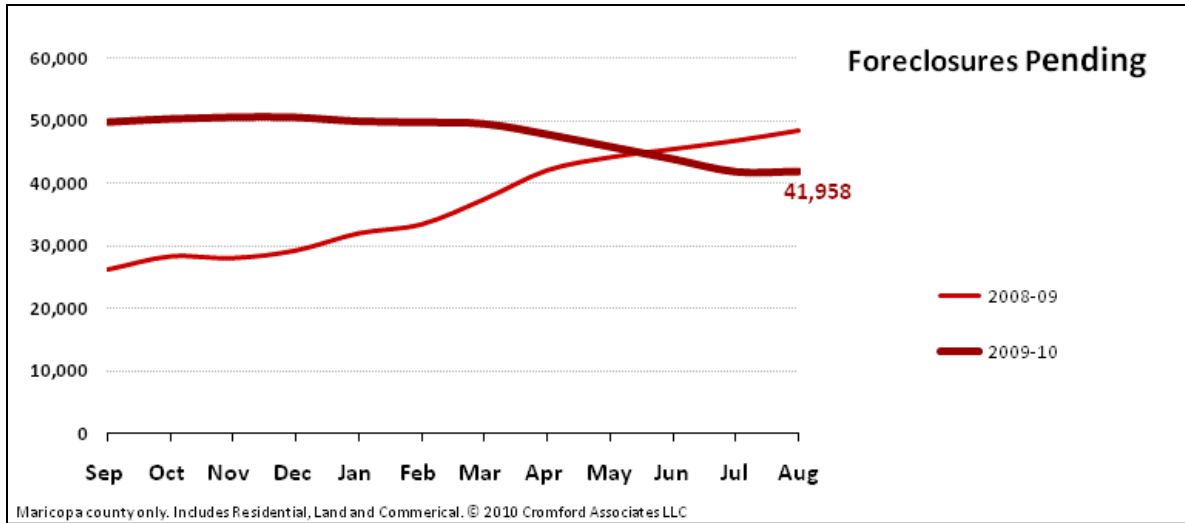
In general, optimism generated through gradual market gains over the last twelve months is dampened by predictions in the fourth quarter. Nationally the Pending Home Sales Index* indicated that pending prices rose in the west 11.6% in July, which is 17.6% below the same figure for 2009. The patterns in 2009 and 2010 are characterized by bursts of optimism and doses of disappointment, typical of recovering markets that adjust and reinvent themselves.



*Source: http://www.realtor.org/press_room/news_releases/2010/09/pending_rise

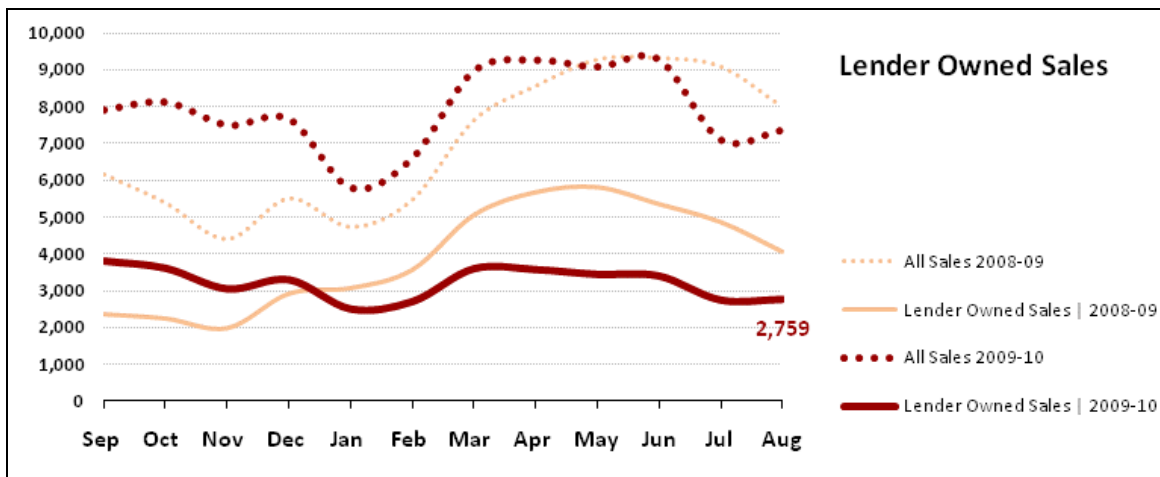
FORECLOSURES PENDING

The downward trend of Foreclosures Pending has continued since January 2010. The decline, from the first week of July at 42,044 through the second week of September at 41,434, was more gradual, instead of continuing the steep decline experienced in the first six months of 2010. Foreclosures Pending appear to be leveling off. As the opportunity for a successful short sale increases, fewer properties will go to foreclosure.



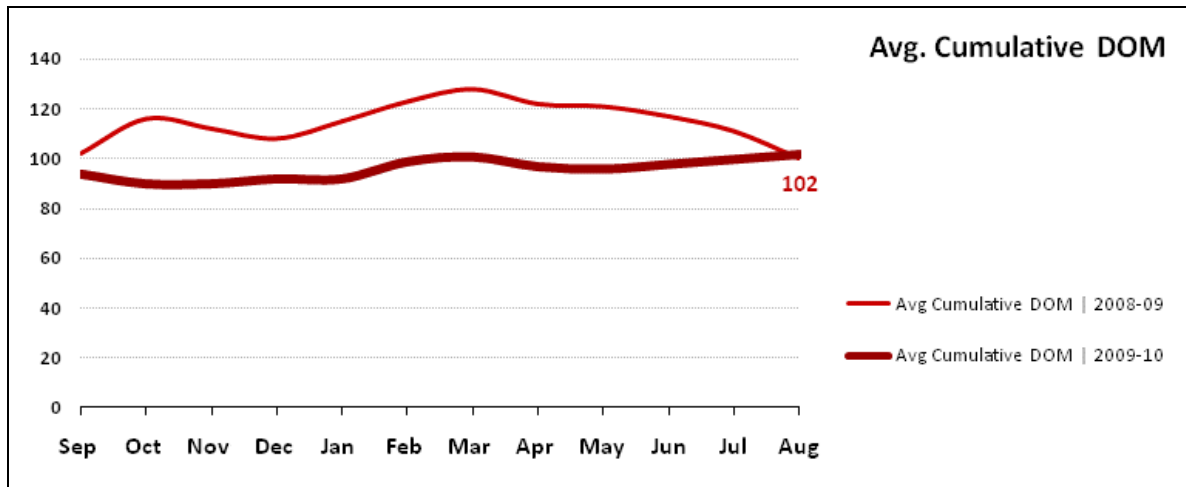
LENDER OWNED SALES

Total Lender Owned Sales in August were 2,759 only the fourth time in the past twelve months that number has been below 3,000. The July figure paralleled the market sales decline felt locally and nationally after the end of the first time home buyer incentives. Foreclosures sold in August represented 37% of the total inventory sold, down slightly from 38% in July, but well below the 65-66% range of the same period a year before. If FNMA’s new Housing Affordability Foreclosure Alternative lures more eligible sellers to seek the alternative to foreclosure, we can expect the percentage to continue to decline.



AVERAGE DAYS ON MARKET

The average days on market inched up two days in August to 102 from 100 in July. This is a small increase, but continues the slightly upward trend seen since January when the average days on market was 92. Average days on market has hovered between 90 and 102 days for the past year. While property at the low end of the pricing spectrum sells much faster, and property at the upper end takes much longer, average days on the market for the entire service area is a relative indicator of overall market health. Longer average days on market normally parallel downward pricing trends as buyers make lower offering prices and sellers reactively accept the lower offers.



COMMENTARY

Sporadic short bursts of optimism in 2010 had a reality check in July and August. Sales were set back in July, fueled by the expiration of the first time home buyer tax credit, and realized only a small gain in August. At the recent Economic Outlook 2011* sponsored by the Greater Phoenix Chamber of Commerce and Cox Communications, presenters showcased many positive solid indications that the US economy is slowly recovering. The key to the Valley's recovery are job and population growth.

*Highlights of presentations at Economic Outlook 2011 can be viewed at <http://www.phoenixchamber.com/node/961>

Phoenix area rode the wave of high population growth and strong employment from 2001 through 2006, ranking third in population growth and 11th in employment growth. In 2010 Arizona's population growth at 55,000/year is the equivalent of births over deaths, with no net creation of new households due to inward migration. In job growth Arizona is currently 42nd in the nation, up from 49th in 2009. This represents the lowest job growth in Arizona since 1980. (Source: US Bureau of Labor Statistics; US Census Bureau; Bureau of Economic Analysis)

In a recovering economy fewer new households are formed. Families double up and grown children move back home. Arizona has the lowest net migration into the state since the 1992 recession. (Source: University of Arizona) Negative home equity traps many would be sellers in their homes preventing move-ups and downsizing. Fifty-one percent of Arizona homes have negative equity. (Source: First American Core Logic) Phoenix ranks fifth nationally in negative net equity behind Las Vegas, and the California cities of Stockton, Modesto and Vallejo. (Source: First American Core Logic)

But there is some good news. The decline in job growth, which has been falling steadily since the fourth quarter of 2007, appears to have leveled off. Greater Phoenix lost 167,000 jobs in the last two years, but only 4,900 in the last twelve months. (Source: U.S. Bureau of Labor Statistics). The free fall has abated but the climb back to healthy growth will be slow. Job growth will entice population movement into the state again.

The ARMLS PPI Index™ predicts a lackluster third and fourth quarter, with both the Average Price and the Median Price of homes on a decline. Particularly problematic is the pattern of fits and starts that characterize this recovery. Mixed messages will be part of our recovery landscape for sometime into the future.

ARMLS staff provides this commentary on the market as fact-based analysis, not as opinion or editorial positioning. Your comments are welcome and opposing viewpoints on interpretation of the market trends identified in STAT are welcome. Send your comments to **communication@ARMLS.com** .