June 2 - Market Summary for the Beginning of June

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Some very interesting and complex transitions took place between May 1 and June 1 2010. There were developments to please both the optimists and the pessimists. Because of the complexity, let's look at a few of the key indicators one at a time.

Active Listings

Not much change in the overall active listing count (for all areas & types) between May 1 (40,990) and June 1 (40,890), but if we look deeper we find:

- REO listings grew 11% from 5,087 to 5,626 (Greater Phoenix, all types)
- Short Sales / Pre-foreclosure listings grew 1% from 16183 to 16,347 (Greater Phoenix, all types)
- Normal listings fell 5% from 18,123 to 17,226 (Greater Phoenix, all types)

So the supply of REOs increased substantially, short sales were stable and normal listings declined in number.

Examining price ranges for single family detached homes we see that:

- Active listing counts increased substantially for price ranges up to $200,000
- Active listing counts dropped slightly for price ranges between $200,000 and $500,000
- Active listing counts dropped sharply for price ranges above $500,000

Among the larger markets, supply increased most in Avondale, Casa Grande, Gilbert, Queen Creek and Tolleson while it dropped the most in Tempe, Scottsdale, Mesa, Sun Lakes, Paradise Valley, Sun City and Gold Canyon.

These figures show several trend reversals compared with last year. The supply of more expensive homes is now falling fast while the supply of low priced homes, especially REOs, is increasing.

Pending Listings

As we suggested might happen last month, we did see a significant and unusual weakening in pending listings. The overall drop (all areas & types) between May 1 and June 1 was 14%, definitely unusual for the season. However we need to take into account that the May 1 number was unusually high, so we are still at an elevated level of demand. The key point is that demand is now falling, a trend that will please the pessimists.

Where is demand weakening fastest (across Greater Phoenix, all types)?

- REO pending listings dropped 17%
- Short sales / pre-foreclosure pending listings held steady
- Normal pending listings dropped 23%

Among the price ranges, the biggest losers were as follows (single family detached / Greater Phoenix)

- pending listing counts dropped 17% for $75,000 to $100,000
- pending listing counts dropped 15% for $100,000 to $125,000
- pending listing counts dropped 21% for $125,000 to $150,000
- pending listing counts dropped 24% for $150,000 to $175,000
- pending listing counts dropped 15% for $175,000 to $200,000
- pending listing counts dropped 19% for $200,000 to $225,000

All other ranges dropped less than 15% and a few actually increased:

- pending listing counts increased 8% for $1,000,000 to $1,500,000
- pending listing counts increased 25% for $2,000,000 to $3,000,000
- pending listing counts increased 13% for $3,000,000 and above

Sales

Sales numbers were robust as a lot of escrows were closed on the large number of contracts signed in April. A total for May of 9,203 is currently shown for all areas and types, just a tad below April's monthly total of 9,230. The total for May 2009 was 9,149, so we are still seeing a slight increase in transaction volume of 2.6% over last year. Because sales pricing is higher than last year, we saw a more significant 8.6% jump in dollar volume. Good news for the optimists.

Reasons?

Why is all this happening? Well it seems likely that almost anyone who wants a "starter home" in 2010 and can get approved for a home loan has already arranged to contract to buy one before the "government bribe" expired at the end of April. There has been a precipitous fall in pending listings in the lower price ranges during May, as these tax-credit-inspired contracts get closed but are not replaced by new signings. Now that it is no longer possible to qualify for a tax credit, new active listings are not proving as attractive to buyers. However, the tax credit does not seem to have had much effect at the top of the market, and with the economy improving, wealthy individuals (unaffected by unemployment) are starting to pick up luxury homes at what must be considered bargain prices, usually at least 50% lower than four years ago.

Overall we can say with confidence that the luxury market is now showing strong signs of improvement while the low end end of the market is weakening significantly. The weakness in lender-owned homes is particularly noticeable, with REO sales volume down 36% year on year.

Pricing

Sales pricing took a quick dip lower in April but bounced back again in May as we forecast in the article below. Sales pricing will almost certainly continue to increase during June, but we do not see signs of a consistent strong upward trend, and we anticipate the usual seasonal weakness in August. Overall we are still seeing a sideways to very slight upward long term trend and this is now reflected in almost all the annual pricing charts. These annual charts are very slow to react to changes but confirm the bottom of the market is now over a year behind us. The fact that list prices for active listings continue to tumble is what leads many people to believe that "home prices are still falling". Like many widely held beliefs, this is false, and it only takes a brief moment to prove it. Active listing pricing is a highly misleading indicator of the real market, and is virtually irrelevant since so many of the highest priced listings fail to sell at all. The most important measures of real home pricing - the average price, median price and average $ per sq. ft. of homes that actually sell have been moving in a general upward direction for Greater Phoenix since April/May 2009.

Foreclosures

May was a relatively calm month in the Maricopa County foreclosure business. New notices of trustee sale dropped another 8% from April, to the lowest monthly number (6,471) since July 2008. Trustee sales also dropped 8% to 4,090, the lowest total since November 2009. Pending foreclosures peaked in December 2009 and have fallen back 13% since then. Those pessimists who have been forecasting an imminent large new wave of foreclosures every month for the last twelve months must be very disappointed. The truth is much less exciting. Nevertheless market distress remains very high and will dominate the market for at least the next two years. Short sales are becoming more significant as each month goes by, while lender-owned properties become gradually less so.

Cautionary Note

The market is still fragile and although it has stabilized over the last year, we must caution that in the last several days the Cromford Market Index has been falling fast due to weakening demand matched with a fairly strong and stable supply. If this fall continues for several months it is possible that the current slight upward pressure on prices will dissipate and price direction will then become more uncertain. We recommend that you keep a close watch on the Cromford Demand Index and the Contract Ratio to detect whether the changes we have seen in the last month are merely due to the end of the tax credit or are the result of more significant changes in the demand for housing.