October 3 - Market Summary for the Beginning of October

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Sales volume eased in September. We are currently measuring a sales count of 6,722 for all areas and types, which is 6% lower than our most recent count of 7,156 for August. Note that this latter count is much lower than the 7,438 we initially reported on September 4. Many of the August sales which had been reported early in September dropped out over the following weeks as we suggested they might. Short sales in particular reduced from 2,264 to 2,028, a fall of over 10%. The more that short sales dominate the sales count, the less reliable the early sales counts tend to be.

Short sales were a smaller factor in September, comprising 24% of all sales (down from 29%) while REOs jumped from 42% to 46% and normal sales recovered slightly from 29% to 30%. Average pricing fell 2.5% from $164,380 to $160,230 and average price per sq. ft. declined nearly 3% from $84.83 to $82.40. However the monthly median sales price nudged up from $119,000 to $120,000. I wouldn't get excited about this rise because median prices sometimes bump about like this for no particular reason and we strongly recommend average price per sq. ft. as a far more reliable measurement of pricing action.

So sales are 13% below the same point last year while pending listings are down about 22% since then. Demand is nevertheless showing some small signs of relative strength since pending listings are up slightly (4%) month to month. This rise has managed to keep the Cromford Market Index™ in the tight range of 85.8 to 86.3 for the entire month of September.

Supply continues to grow steadily, with overall active listings up by 2.7% from the prior month. Almost all this growth is concentrated in the price ranges below $200,000 where the supply position is starting to look more excessive than it has for the last two years.

New notices of trustee sale and completed foreclosures stayed at almost exactly the same level in September as in August. With July also at a similar level, the third quarter of 2010 proved to be the worst so far for trustee sales (15,209). However the quarterly total of new notices (23,198) was well below the previous record (28,394) set in May 2009.

Despite the excess supply and relatively weak demand, there are several signs that pricing has stabilized for a while after the steep falls in the third quarter. We are not anticipating further steep falls during October, but we are also not seeing any signs of prices returning to the much higher levels of the second quarter.

September 30 - Lender Owned Active Listings Grow 68% in Just 5 Months

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There were 8,544 lender owned homes offered for sale as active listings on ARMLS this morning. As of April 30, 2010 there were only 5,090. This is a 68% growth in just 5 months. During the same period the monthly sales rate for lender owned homes fell 19% from to 3,851 to 3,119. A 68% growth in supply coupled to a 19% fall in demand is having a severe negative effect on the market. This is especially true because a glut of lender owned homes have an unusually large impact on the market around them.

While the overall increase in lender owned supply is 68%, some areas are much higher or lower than this. Also single family homes have been affected much more than condos. If we examine active listings for lender owned (REO) single family detached homes among the cities within Greater Phoenix we see the following:

City	Active REO - 4/29	Active REO 9/30	% Change
Rio Verde	1	5	400%
New River	8	23	188%
Anthem	11	31	182%
El Mirage	32	88	175%
Tolleson	41	110	168%
Laveen	65	150	131%
Gilbert	153	350	129%
Maricopa	122	274	125%
Youngtown	8	18	125%
Goodyear	75	159	112%
Carefree	4	8	100%
Queen Creek	181	358	98%
Waddell	16	31	94%
Casa Grande	71	136	92%
Phoenix	1,013	1,947	92%
Peoria	159	306	92%
Wickenburg	11	21	91%
Tempe	53	100	89%
Buckeye	114	212	86%
Mesa	341	618	81%
Wittmann	9	16	78%
Glendale	238	421	77%
Florence	25	44	76%
Sun City West	11	19	73%
Chandler	187	305	63%
Surprise	149	237	59%
Apache	56	83	48%

Junction			
Sun City	47	68	45%
Avondale	90	130	44%
Scottsdale	194	274	41%
Litchfield Park	25	33	32%
Fountain Hills	29	37	28%
Gold Canyon	31	39	26%
Paradise Valley	15	17	13%
Cave Creek	32	32	0%
Coolidge	31	28	-10%
Arizona City	26	20	-23%
Sun Lakes	6	4	-33%
Tonopah	39	25	-36%
Eloy	6	2	-67%

Here we excluded listings in AWC status from our counts.

If we break down the market into price ranges this also makes for revealing information. The following data is for single family detached homes and excludes listings in AWC status:

Price Range	Active REO - 4/30	Active REO 9/30	% Change
Under $100,000	1,337	3,063	129%
$100,000 to $200,000	1,550	2,814	82%
$200,000 to $300,000	488	619	27%
$300,000 to $500,000	223	251	13%
$500,000 and above	166	175	5%

Note how the lower the price range the greater the increase in supply of lender owned homes. The growth in REO supply under $200,000 is very strong but above $300,000 it is fairly mild. This partly explains why we see only mild increases for Paradise Valley, Fountain Hills, Gold Canyon, Litchfield Park, Sun Lakes and Scottsdale, where average home prices tend to exceed $200,000. What is perhaps more surprising is the reduction in REO supply for Arizona City, Coolidge, Tonopah and Eloy, all of which have some of the lowest average home prices in the valley and lie very distant from the center of Phoenix in a southerly and westerly direction. These areas contrast strongly with the closer and inexpensive areas like Tolleson, El Mirage and Laveen and with the distant areas in the north, such as Anthem, New River and Rio Verde.

Unexpectedly strong growth in REOs can be seen for Gilbert, Maricopa, Casa Grande, Queen Creek and Peoria.

Phoenix's growth is mainly powered by the Southern and Western areas of the city.

What effect is this having on the market?

Well this is only one of several negative effects which have occurred in the last five months. However it is certainly one of the more important ones and in recent weeks we have seen prices start to fall almost as steeply as we did during 2008.

To illustrate this, let's look at the monthly average price per square foot for single family detached homes over the last twelve months:

After rising slowly after April 2009, prices were close to flat for eight months but took a very large and fast step downwards after the end of July, and have fallen by 8.4% in just two months since then. I have heard several local analysts suggest we are "bumping along the bottom". However the above chart is not exactly consistent with a "bumping along the bottom" theory. This theory will probably have to be revised once the pricing data is widely reported by the media in the latter half of October.