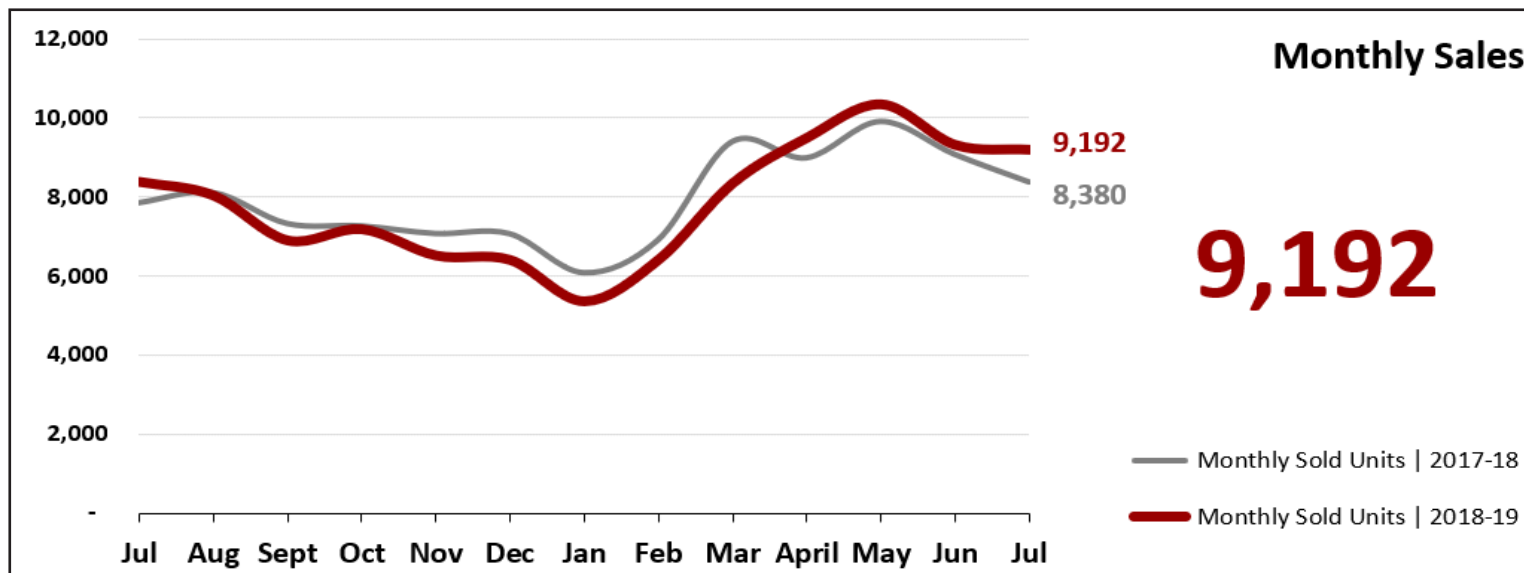




Your Monthly Statistics for the Phoenix Metro Area



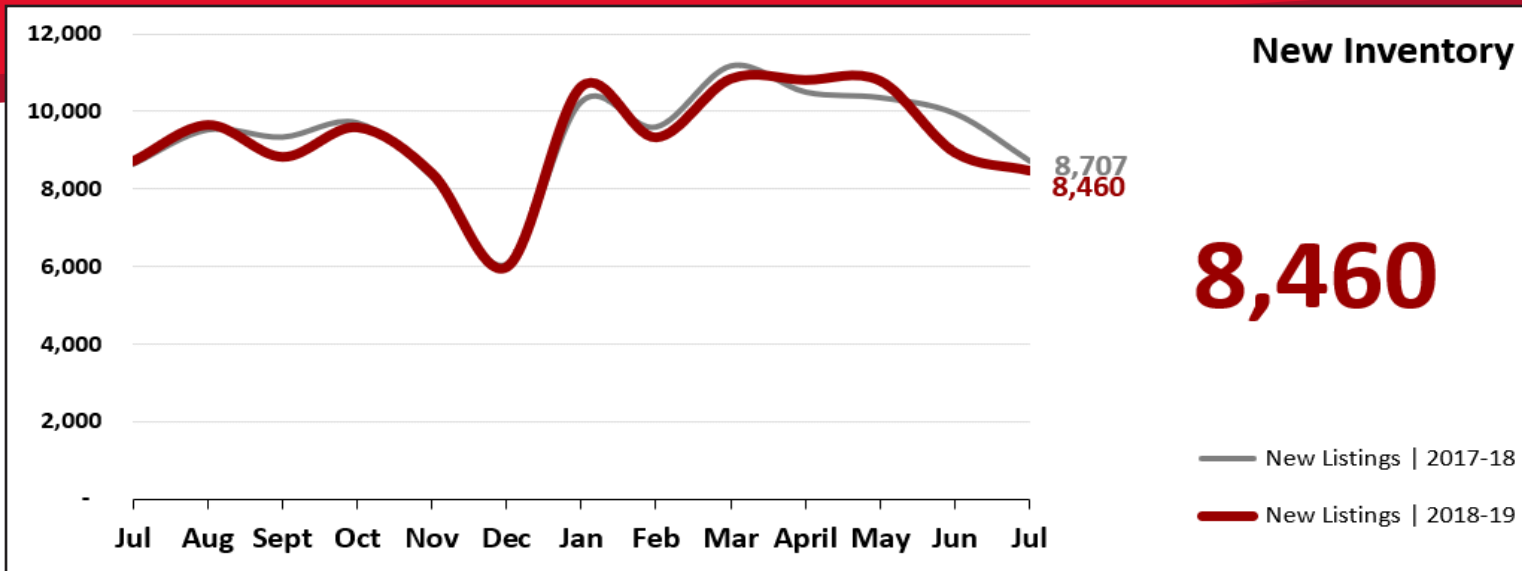
DATA FOR JULY 2019 - Published August 16, 2019



Sales are down -1.3% month-over-month. The year-over-year comparison is up +9.7%.

9,192

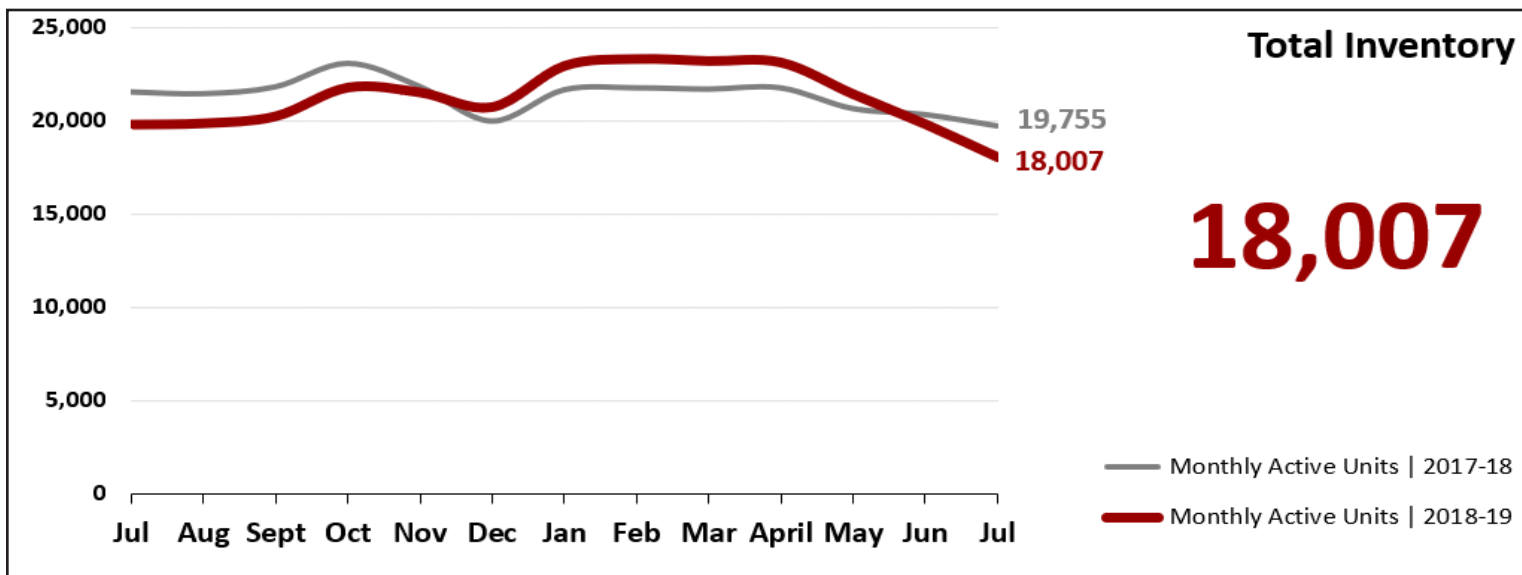
Closed MLS sales with a close of escrow date from 7/1/2019 to 7/31/2019, 0 day DOM sales removed



New inventory is down -5.3% month-over-month while the year-over-year comparison decreased by -2.8%.

8,460

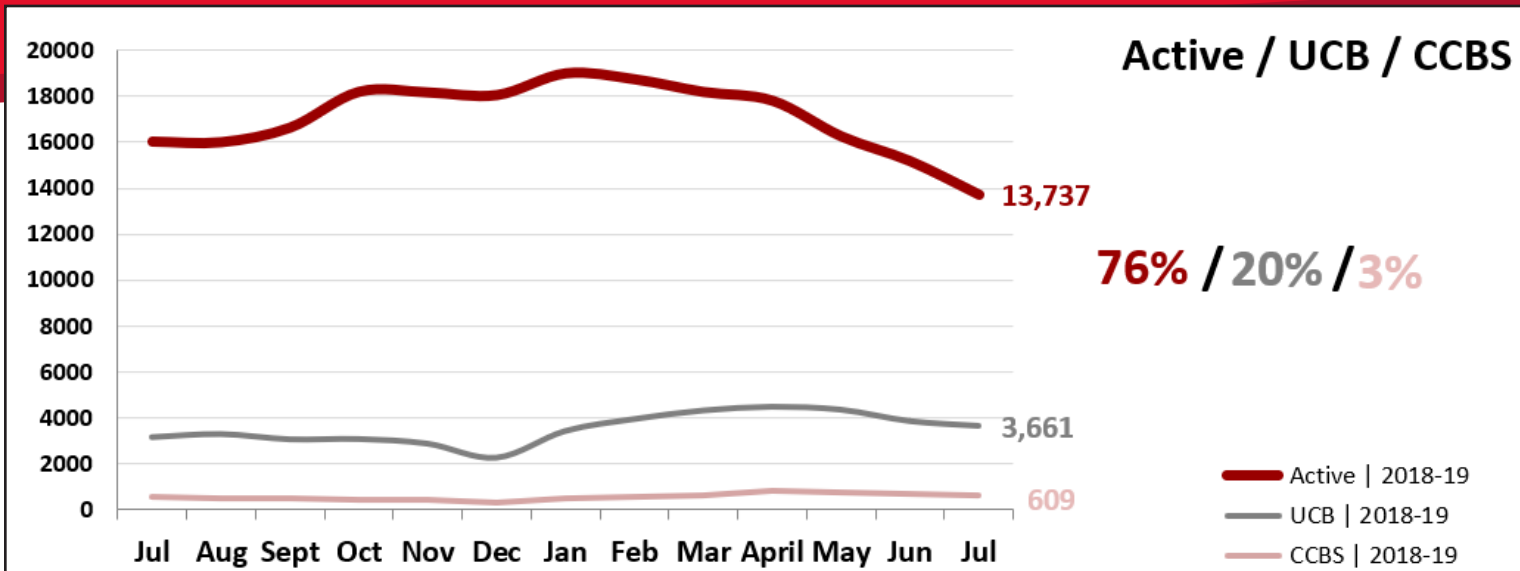
New MLS listings that were active for at least one day from 7/1/2019 to 7/31/2019, 0 day DOM sales removed



Total inventory has a month-over-month decrease of -9.0% while year-over-year reflects a decrease of -8.8%.

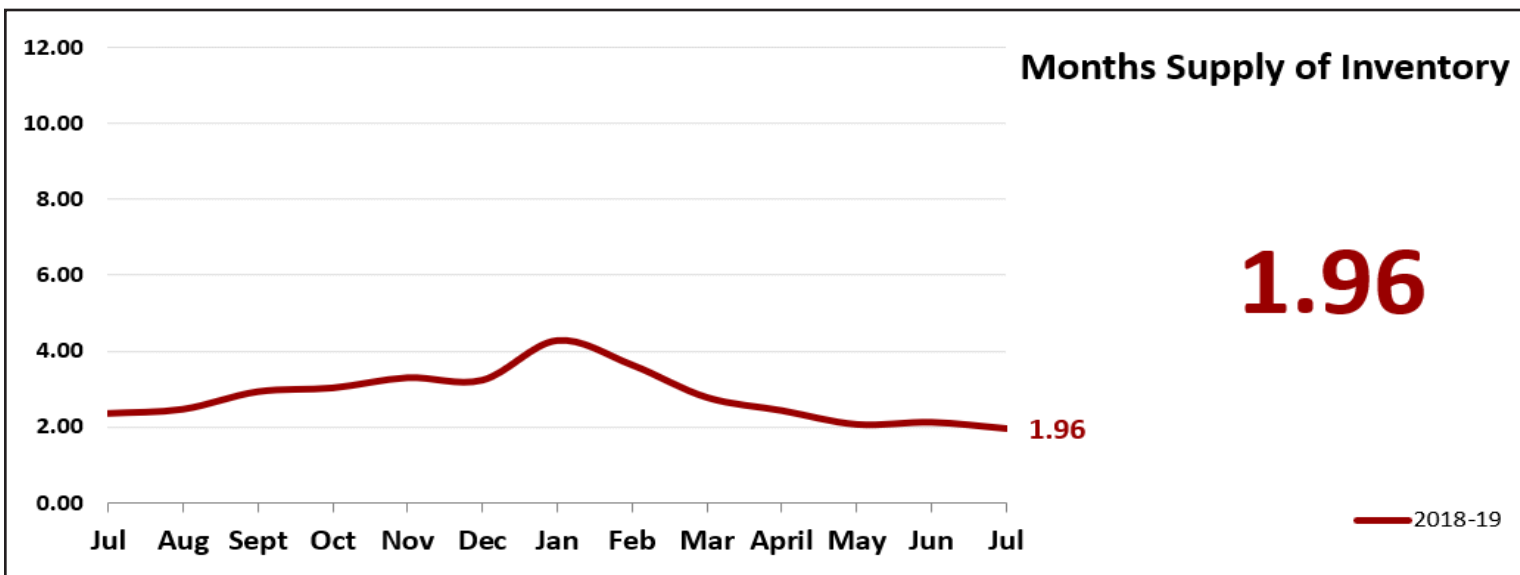
18,007

Snapshot of statuses on 7/31/2019



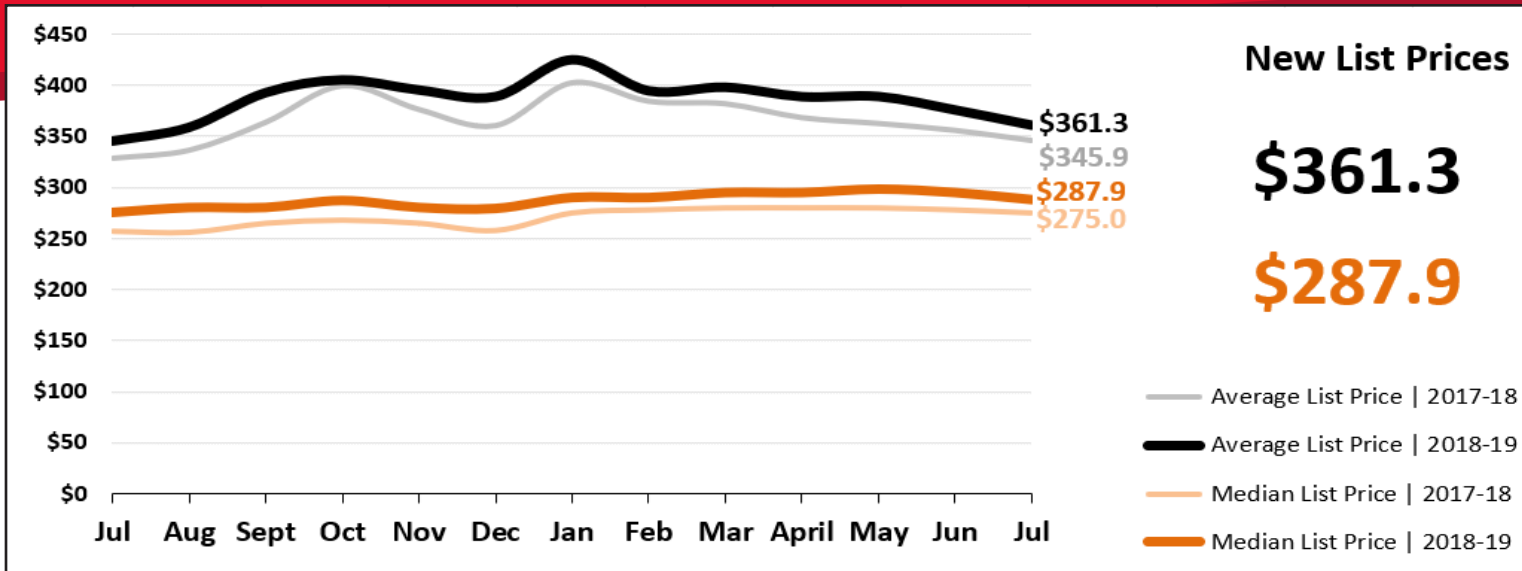
July UCB listings percent of total inventory was 20.3% with July CCBS listings at 3.4% of total inventory.

Snapshot of statuses on 7/31/2019



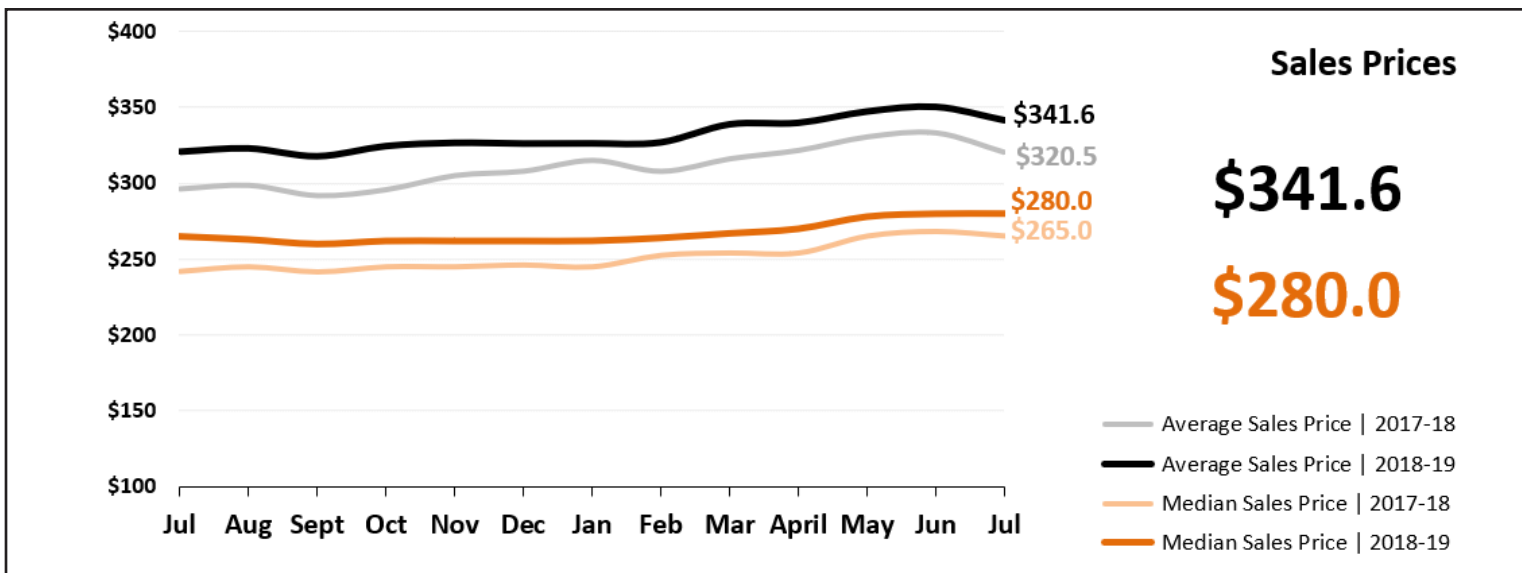
Months supply of inventory for June was 2.12 with July at 1.96.

Current inventory of Active/UCB/CCBS divided by the monthly sales volume of JULY 2019, 0 day DOM sales removed



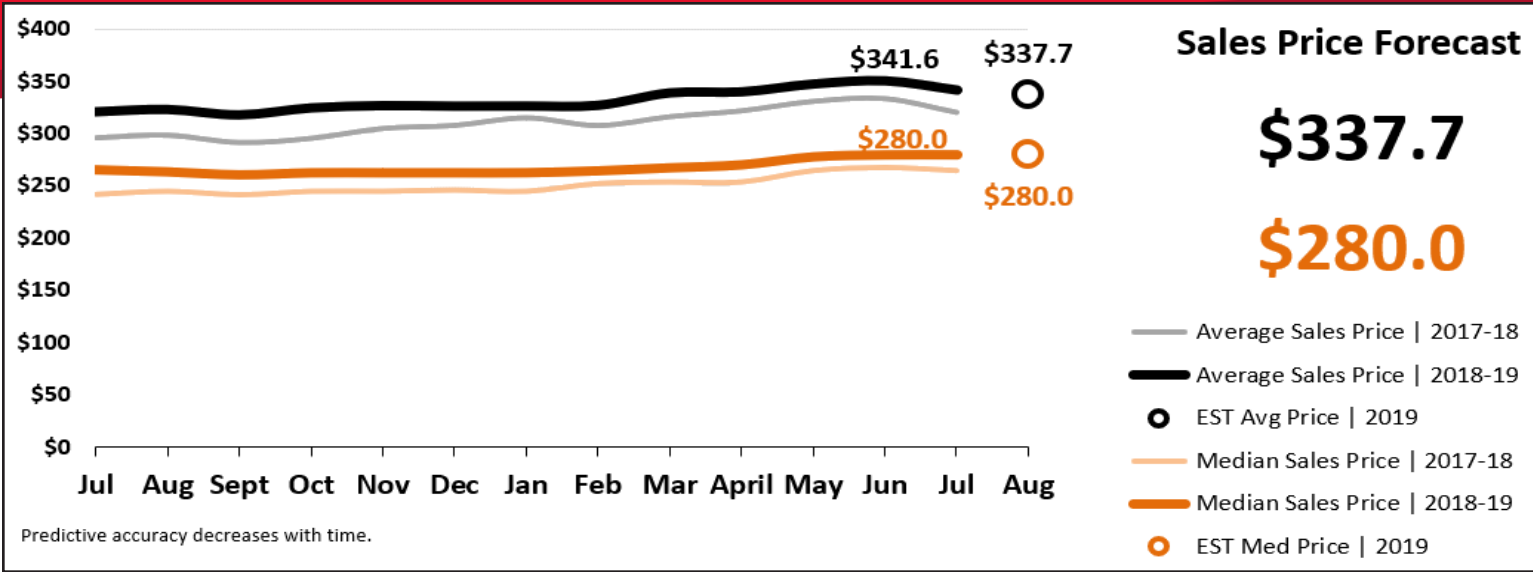
Average new list prices are up +4.5% year-over-year. The year-over-year median is up +4.7%.

List prices of new listings with list dates from 7/1/2019 to 7/31/2019, 0 day DOM sales removed



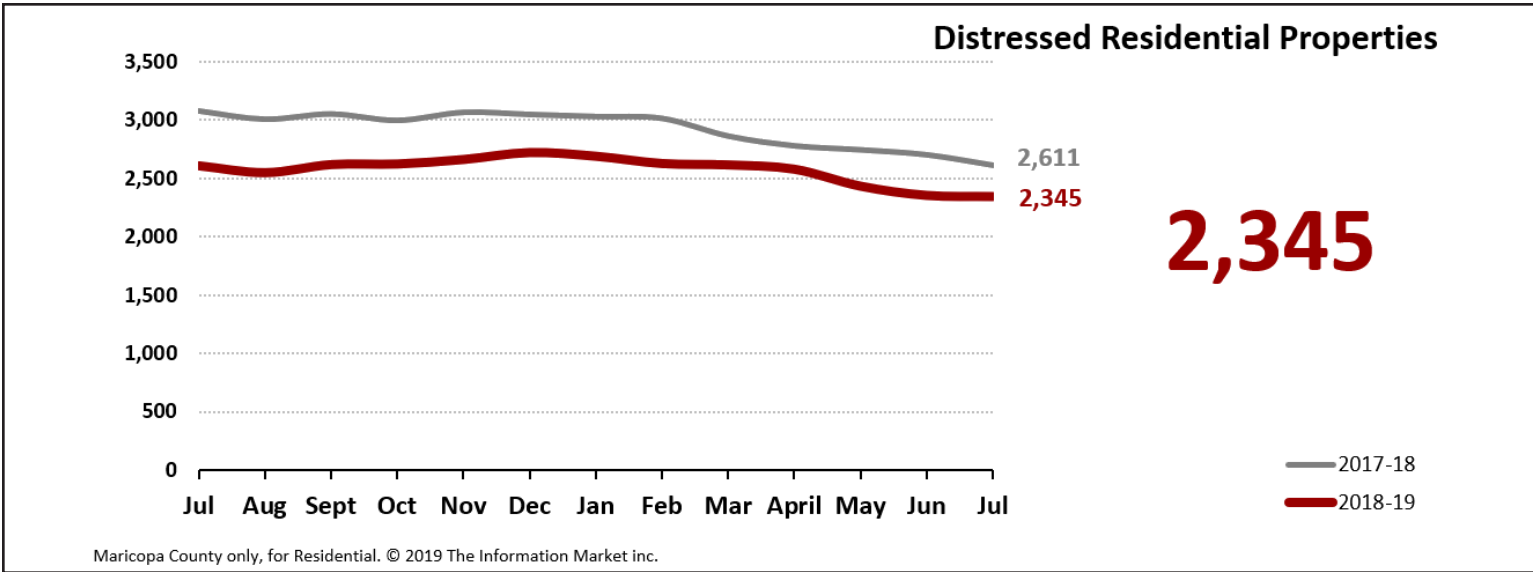
The average sales price is up +6.6% year-over-year while the year-over-year median sales price is also up +5.7%.

MLS sales prices for closed listings with a close of escrow date from 7/1/2019 to 7/31/2019, 0 day DOM sales removed



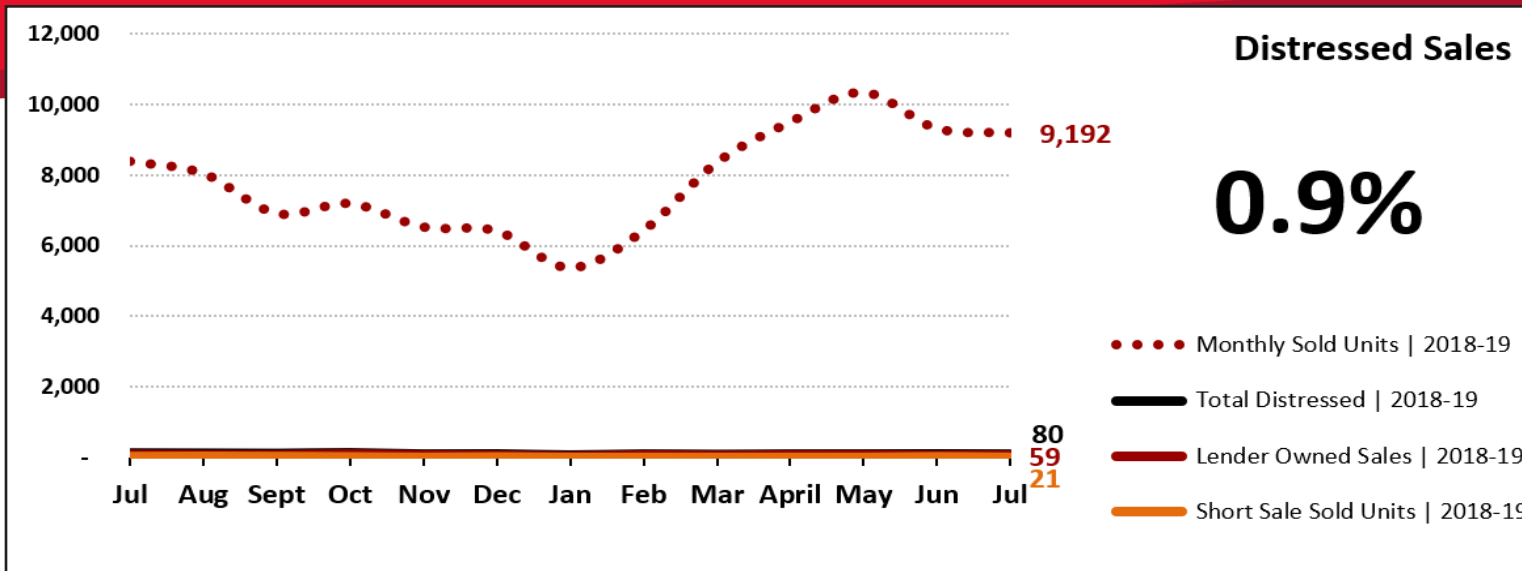
A decrease is forecasted in August for average sale prices while August median sale prices will stay the same.

ARMLS proprietary predictive model forecast, 0 day DOM sales removed



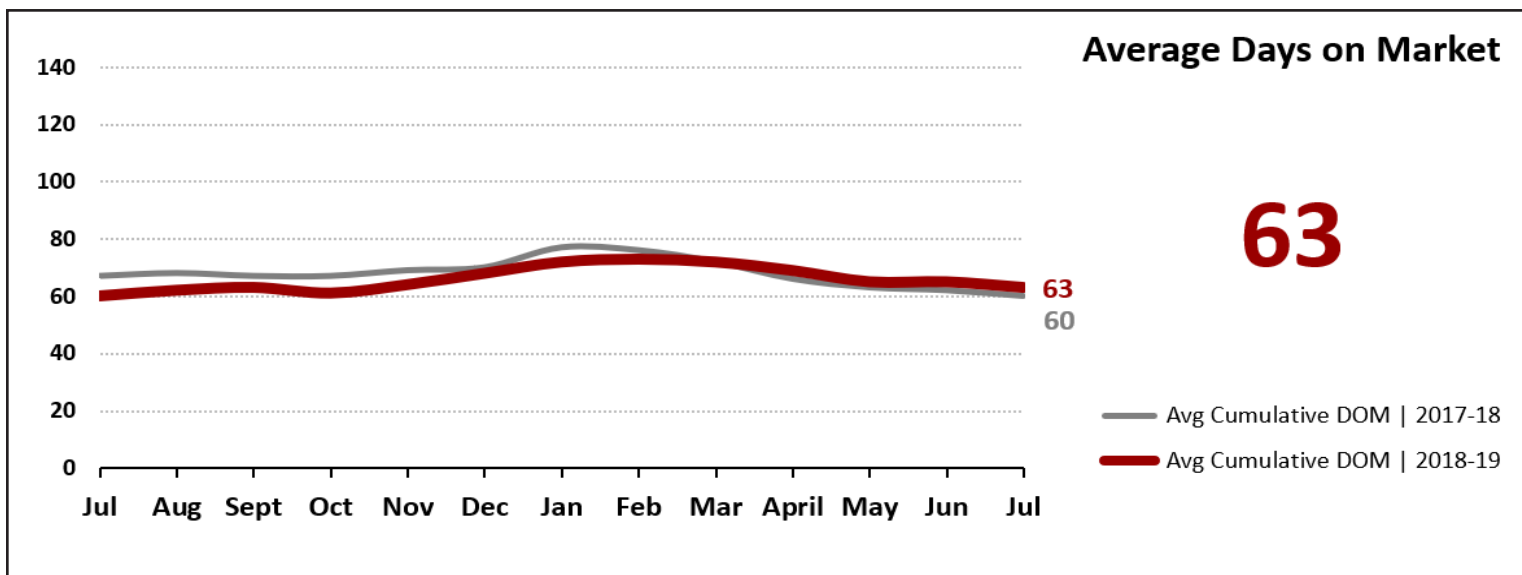
Foreclosures pending month-over-month showed a decrease of -0.4% while the year-over-year figure was down -10.2%.

Snapshot of public records data on 7/31/2019 active residential notices and residential REO properties.



Distressed sales accounted for 0.9% of total sales, the same as the previous month. Short sales dropped -38.2% year-over-year. Lender owned sales dropped -21.3% year-over-year.

New MLS listings that were active for at least one day from 7/1/2019 to 7/31/2019, 0 day DOM sales removed



Days on market were up +3 days year-over-year while month-over-month went down by -2.

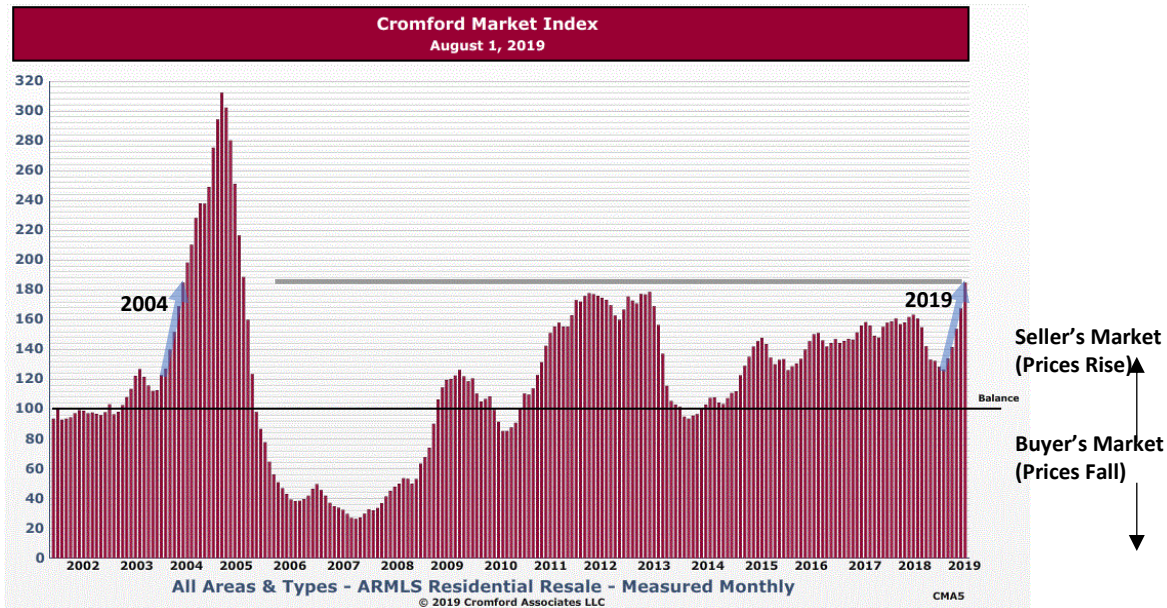
MLS sales prices for closed listings with a close of escrow date from 7/1/2019 to 7/31/2019, 0 day DOM sales removed

GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

It's "Back to the Future" for the Greater Phoenix residential housing market as multiple measures begin to resemble 2004, the precursor to the 2005 "Bubble". (Insert dramatic music here) Just mentioning those two years may trigger PTSD in those of us who lived through that period, unaware of the cliff that awaited us just 2 years later when housing prices crashed 55% from 2007 through early 2009. Will that happen this time? Will we make the same mistakes? Before we get into it, let's talk about what's similar to 2004 and then we'll discuss what is not.

What is similar to 2004:

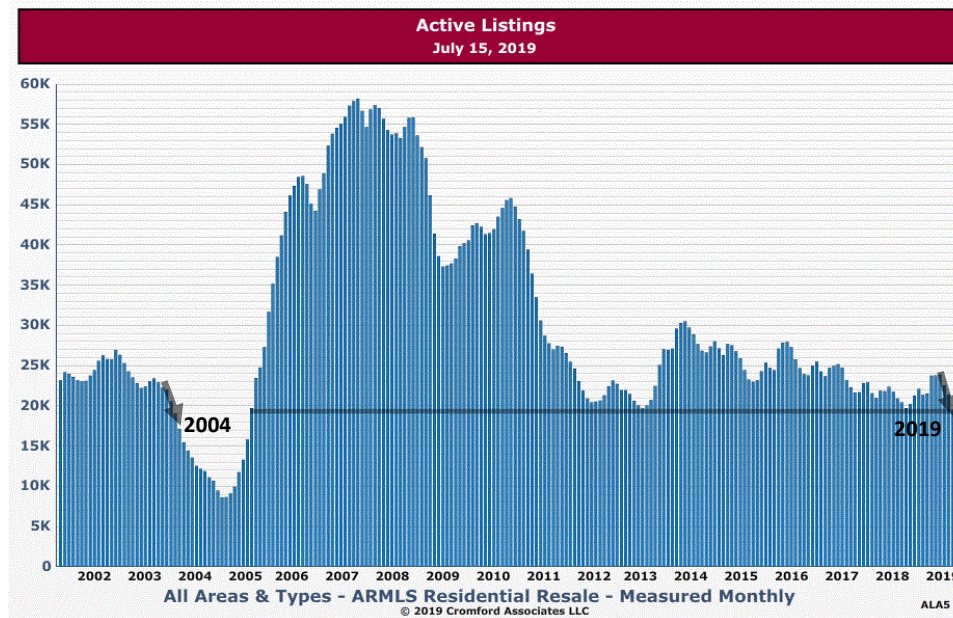
1) The relationship between Supply and Demand. In a short 5-month period, our Seller Market has gone from its weakest measure in 3 years to its strongest measure since 2005. However, since 2005 was on the decline our scenario today resembles 2004 more closely because the seller market was strengthening at nearly the same pace.



GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

What is similar to 2004:

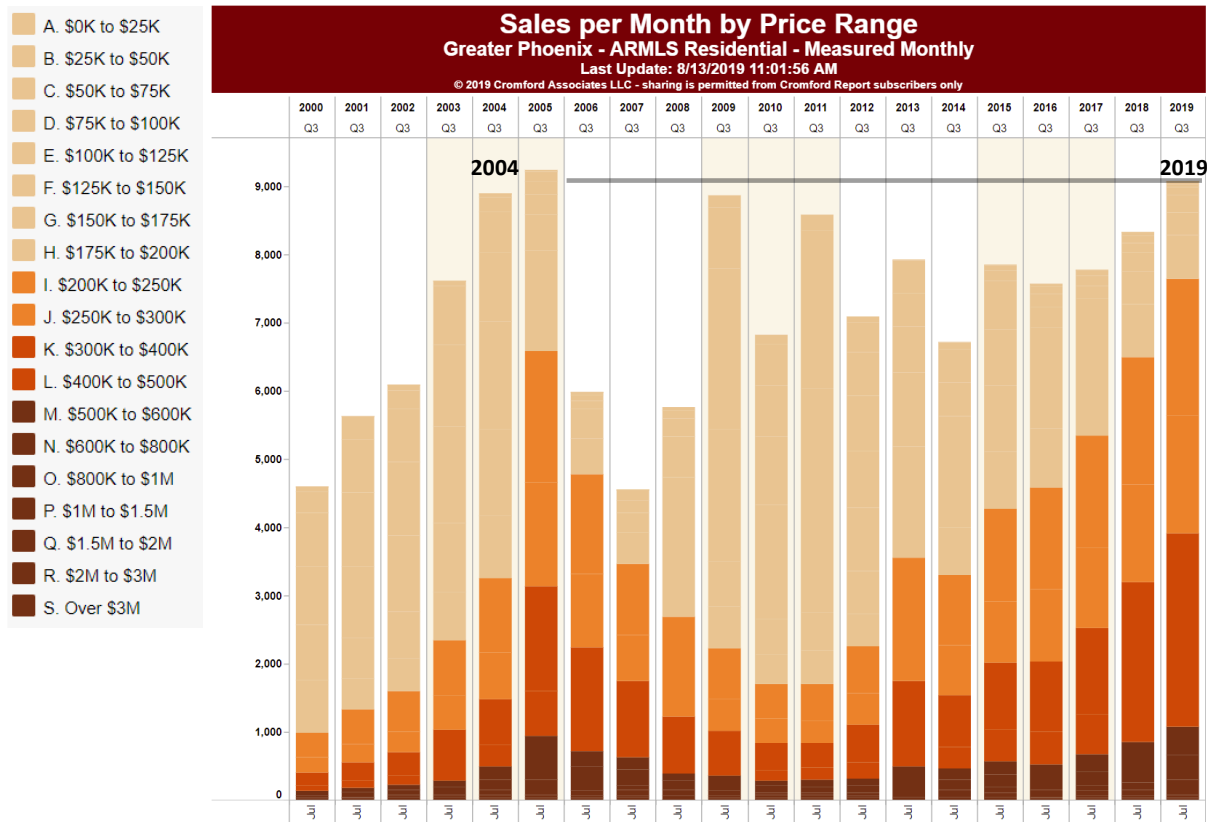
2) Drop in Supply. It may not look as dramatic to the casual observer, but supply hasn't been this low since 2005. However again, supply was rising in 2005 while it was declining in 2004 so the market today is more in line with 2004. Active supply is more complicated to count these days due to statuses like UCB or CCBS that keep MLS listings in Active status accepting backup offers while they're under contract. This practice was not prolific in 2004 and 2005 while today they make up 24% of the overall count. From this we can tell you that "true" active supply, counting only listings that are not under contract, is significantly lower and declining at a similar rate to 2004.



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What is similar to 2004:

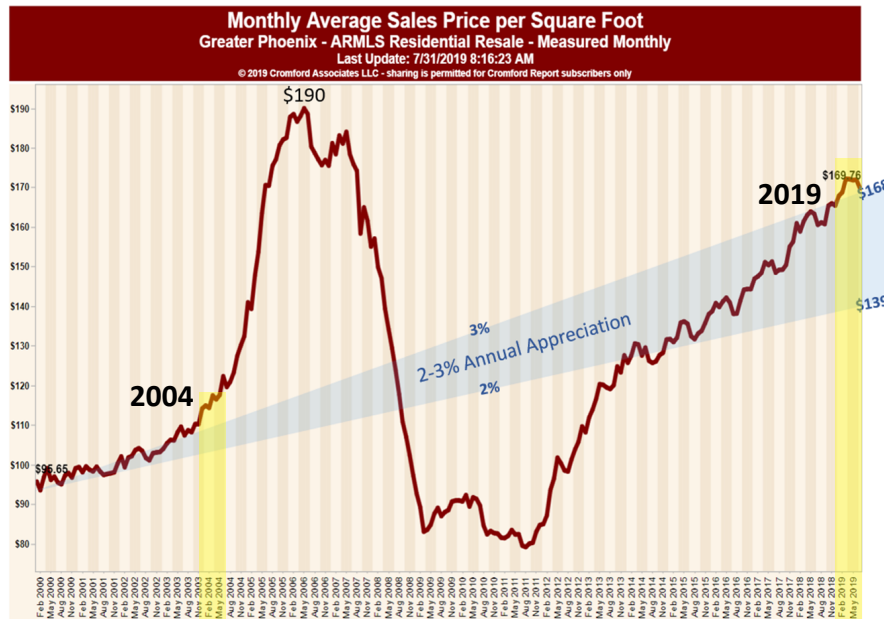
3) ARMLS Sales Volume. This past July outperformed 2004 in sales volume. In fact, 5 out of the last 7 months have outperformed 2004, and May 2019 was a record month that outperformed both 2004 and 2005.



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What is similar to 2004:

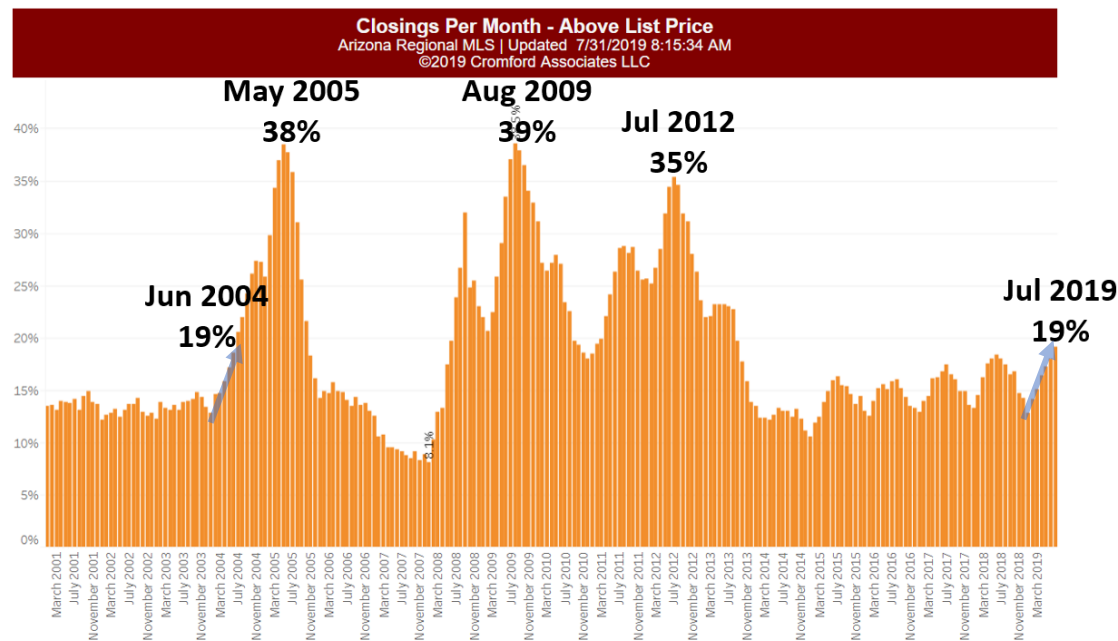
4) Price in Relation to Historical Inflation. The long-term average rate of inflation for the Greater Phoenix Area is 2.1%. Generally speaking, annual appreciation between 2-3% is accepted as a comfortable and sustainable rate to keep up with wage growth and maintain a normal range of affordability. Greater Phoenix has not experienced an appreciation rate that weak since 2014, but prices had dropped so low that the market could manage high appreciation rates without affecting affordability. Today prices have risen higher than where they would've been had the market followed a 3% annual return for nearly 20 years; also similar to 2004 when average prices pulled away from the range of inflation. At 5.8%, the current appreciation rate is conservative compared to the last 8 years, but because it's surpassed the historical comfort zone sustainability and affordability are back into the debate.



GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

What is similar to 2004:

5) Homes Sold Over Asking Price. July saw 19% of sales with sale prices over asking price, the highest since 2013. It's not the highest percentage we've ever seen historically. The years between 2008-2013 were dramatically higher in sales over asking price, but back then homes were selling for less than the cost of a used car and it was a no-brainer to pay a little more and hold long-term. Over the past 4 years this measure has become more seasonal and July typically has the highest percentage of the year. Even though it will probably decline in August as contract activity cools, this measure is currently similar to 2004 and adding to our *deja vu*.



GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

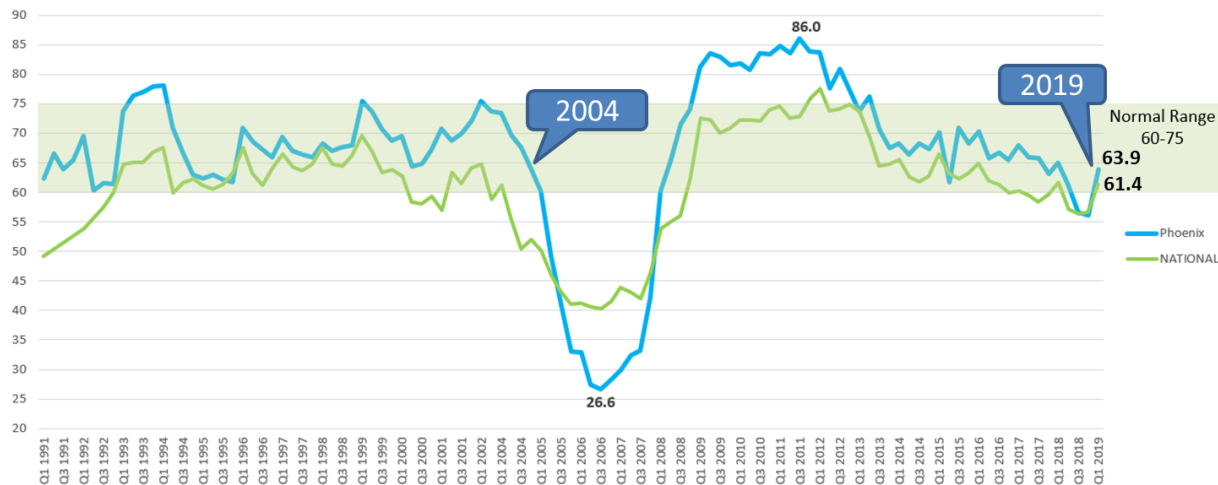
What is similar to 2004:

6) Affordability. It may surprise some people to see that affordability was still normal in 2004. It wasn't until 2005 that things went wonky. The Home Opportunity Index measures the percentage of homes sold in the prior quarter that were affordable to a family making the local median income under current lending practices. Greater Phoenix has historically been higher in affordability than the national index and maintains that today; although the gap has narrowed and was shaky in the last quarter of last year. The good news is that affordability is still within the normal range with rising private sector earnings and amazingly low mortgage rates. However it's still on the low end of the normal range and could easily drop if earnings don't keep up, mortgage rates increase, or prices rise too sharply.

Phoenix Metropolitan Area - Home Opportunity Index (HOI)

Measuring Affordability | 1991-2019 | Updated Through Q1 2019

Source: National Association of Home Builders/Wells Fargo (NAHB.org)



GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

So what does this mean? Are we DOOMED to repeat the past

5 things NOT similar to 2004:

- 1) **Demand.** Demand is 6% above normal today. It was 26% above normal in 2004 and fueled by an extraordinary volume of flip investors. Today's demand is fueled primarily by people who need a place to live and less by people who have no intention of living in the home and no intention of renting it to someone. The proliferation of 2004-2005 flip investors and speculators selling amongst themselves was dubbed "false demand" during the bubble. Financing for their activity began to dry up in 2006 leaving a ghost town of empty homes with no one to buy them. Last June, flip sales acquired and sold within a 6-month period only accounted for 7.6% of all sales. While significant, they're not dominating the market.
- 2) **New Construction.** Builders are not overbuilding and have filed only 12,028 single family permits through June this year. In 2004 they filed a whopping 27,561 within the same time frame. Multi-family permits are on the rise with 5,652 permits issued through June this year versus only 3,716 in the same time frame in 2004. Sales of newly constructed single family homes, townhouses and condos only made up 12% of total sales last June.
- 3) **Appreciation Rates.** Annual appreciation rates per square foot are more modest today at 5.9% versus 11.3% in 2004. Reasons for this may include more conservative appraisal practices implemented after the crash and a higher percentage of buyers who are unwilling or unable to bridge the gap between the appraised value and contract price.

GUEST COMMENTARY by Tina Tamboer, Senior Residential Housing Analyst

- 4) **Short Term Rentals.** When it comes to “false demand”, the newest activity to qualify is the short-term rental investment. True housing demand is comprised of people who need to live in the home, whether as homeowners or renters. When a buyer purchases real estate for the sole purpose of renting it weekly or as an event venue, that is not housing demand. It’s tourism, which is often the first wave to go during a stormy economic cycle. New regulations requiring the issuance of an Arizona Tax ID number for these investments may give us better insight as to the degree they have infiltrated the market and what risk they pose to its stability.

- 5) **Skepticism.** This is one thing we did NOT have a lot of in 2004 and 2005. In fact, people were mostly euphoric about the market back then and felt it would accelerate forever and ever. Today, the very presence of skepticism and fear of another bubble mitigates the risk that we’ll see another one.

So no, we are not doomed to repeat the bubble. The reality is that we’re not afraid to repeat 2004, it’s the rapid 45% appreciation rate of 2005 that sparks fear and hesitance. Many laws and industry changes have been put into place since that time to avoid repeating history; changes that affected nearly every industry involved in residential real estate. That’s what makes this time interesting to watch going forward. We have been here before, but this time the industry is wiser. (I only wish I could have my age back too) Appreciation rates in Greater Phoenix are forecasted to be positive for the rest of the year and into 2020. Enjoy the ride!

The Pending Price Index

Last month the STAT mathematical model projected a median sales price for July of \$280,000. The July reported median was \$280,000. Looking ahead to August, the ARMLS Pending Price Index anticipates the median sales price will remain unchanged, projecting a median sales price of \$280,000.

We begin August with 6,585 pending contracts; 3,661 UCB listings and 609 CCBS giving us a total of 10,855 residential listings practically under contract. This compares to 9,135 of the same type of listings one year ago. At the beginning of August, the “pending” contracts are 18.83% higher than last year. There were 23 business days in August of 2018 and 22 this year. ARMLS reported 8,036 sales in August of 2018. We expect sales volume will be higher this year, our guess is 8,450 sales.