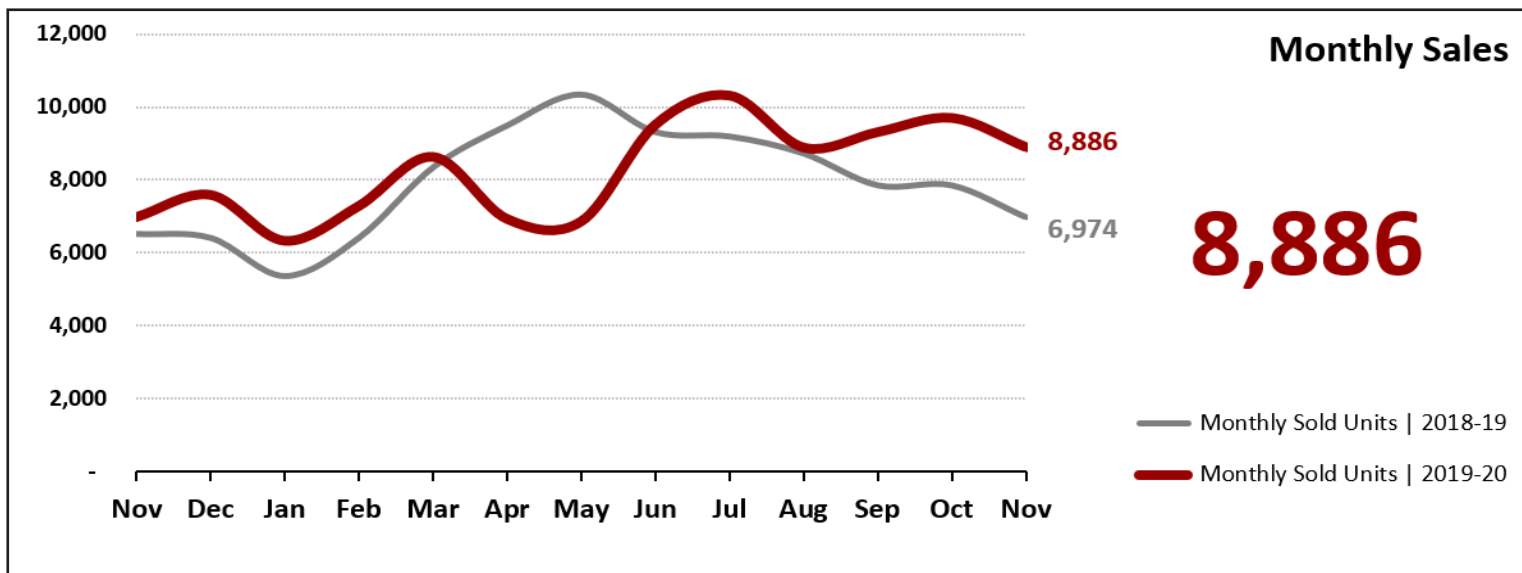




## Your Monthly Statistics for the Phoenix Metro Area



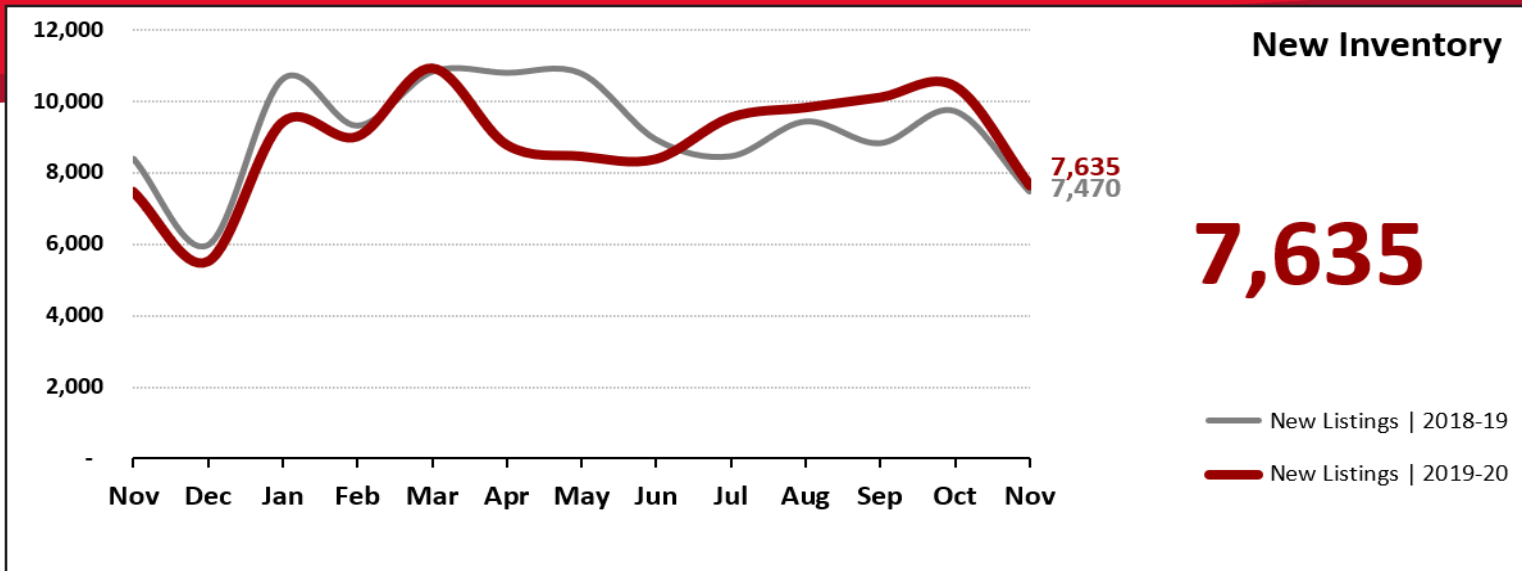
**DATA FOR NOVEMBER 2020** - Published December 14, 2020



Sales are down -8.3% month-over-month. The year-over-year comparison is up +27.4%.

**8,886**

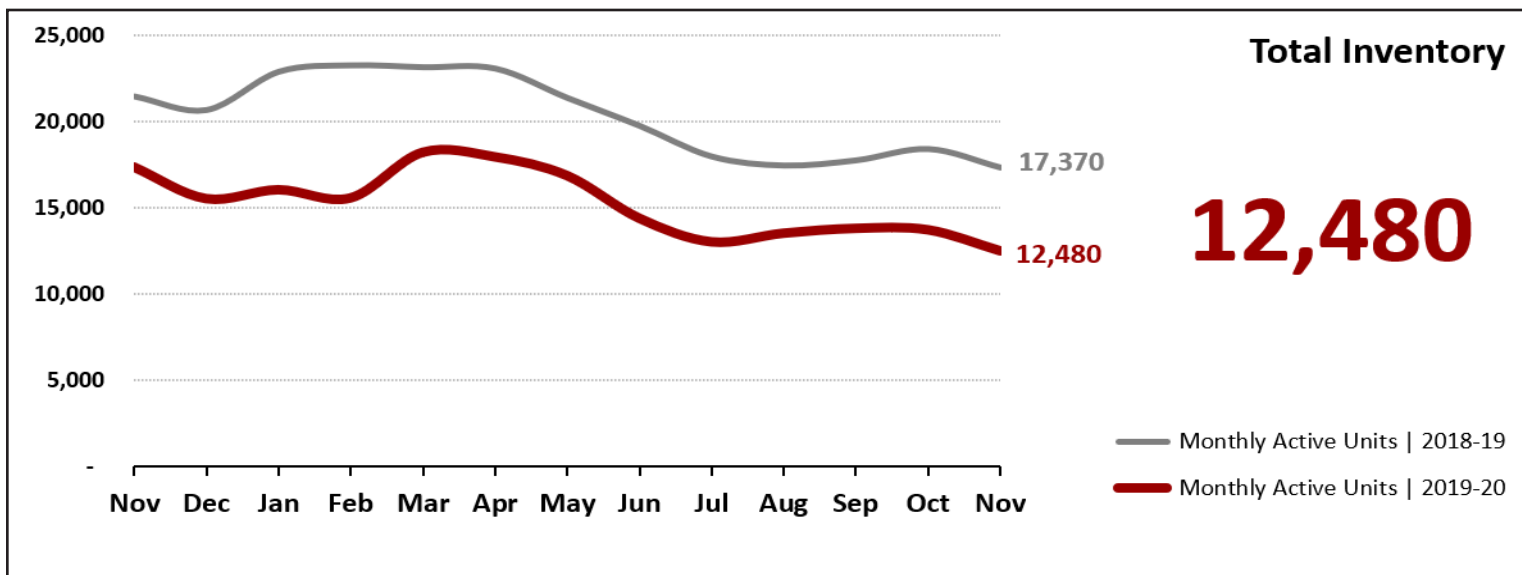
Closed MLS sales with a close of escrow date from 11/1/20 to 11/30/20, 0 day DOM sales removed



New inventory is down -26.7% month-over-month while the year-over-year comparison increased by +2.2%.

**7,635**

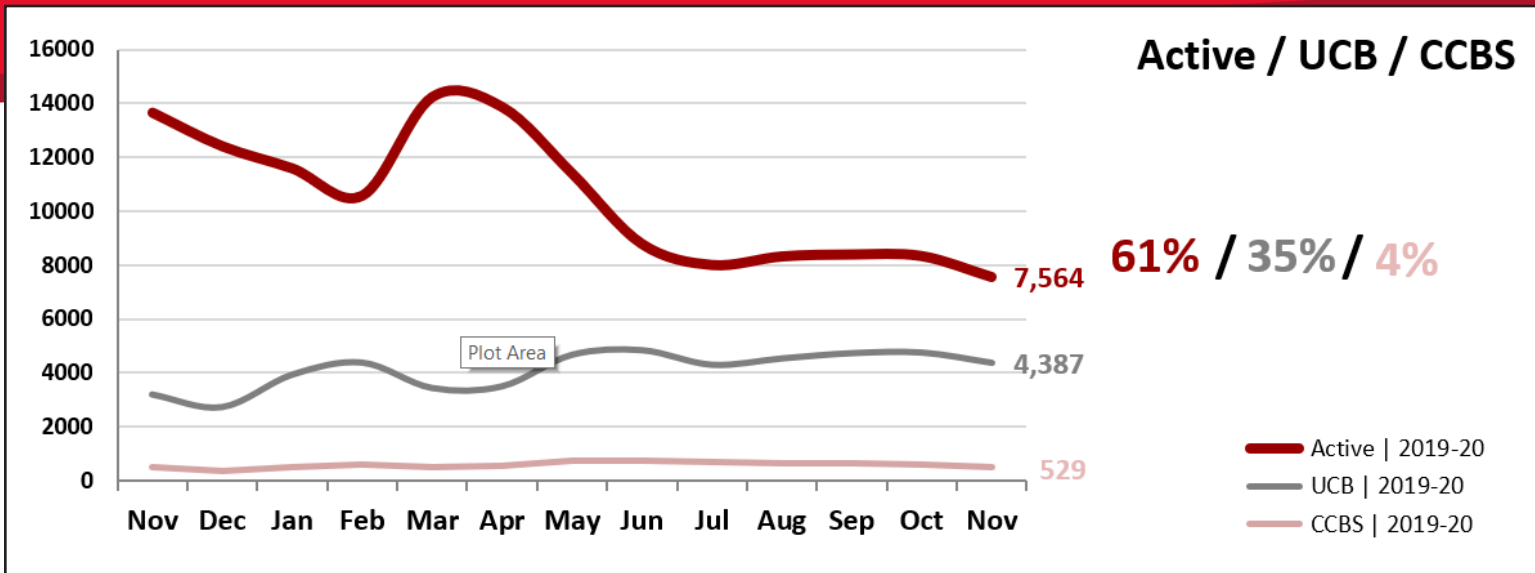
New MLS listings that were active for at least one day from 11/1/20 to 11/30/20, 0 day DOM sales removed



Total inventory has a month-over-month decrease of -9.0% while year-over-year reflects a decrease of -28.2%.

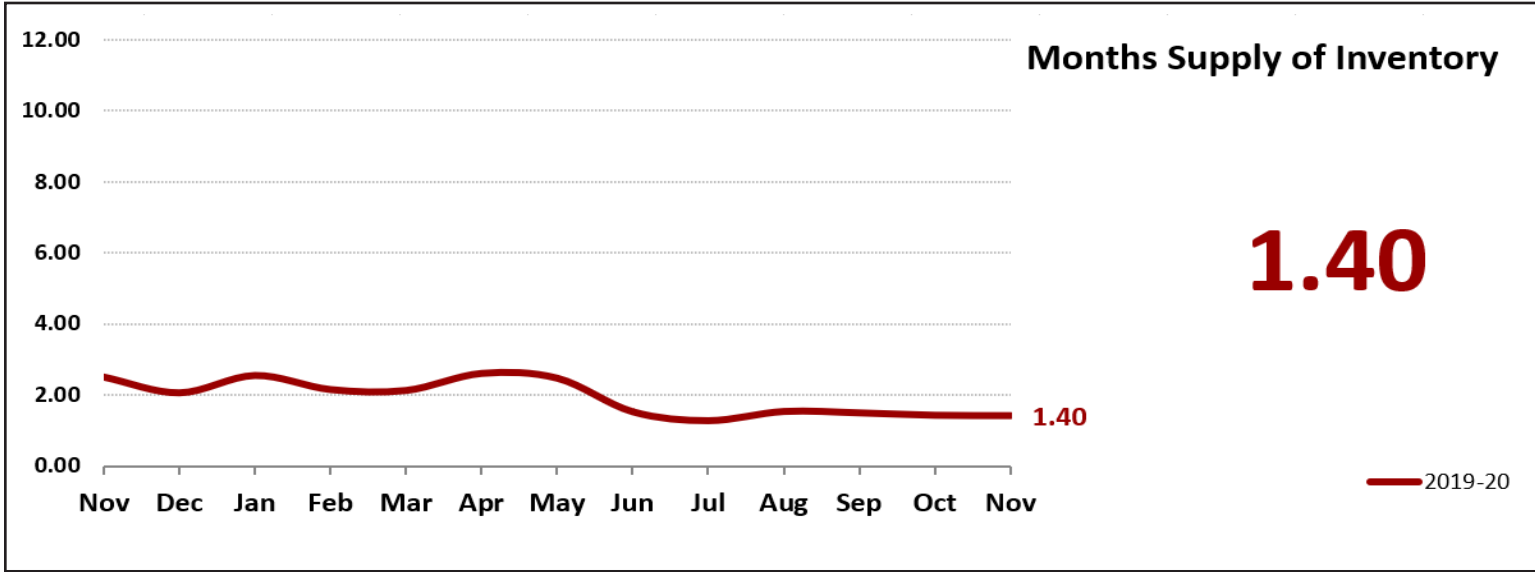
**12,480**

Snapshot of statuses on 11/30/20



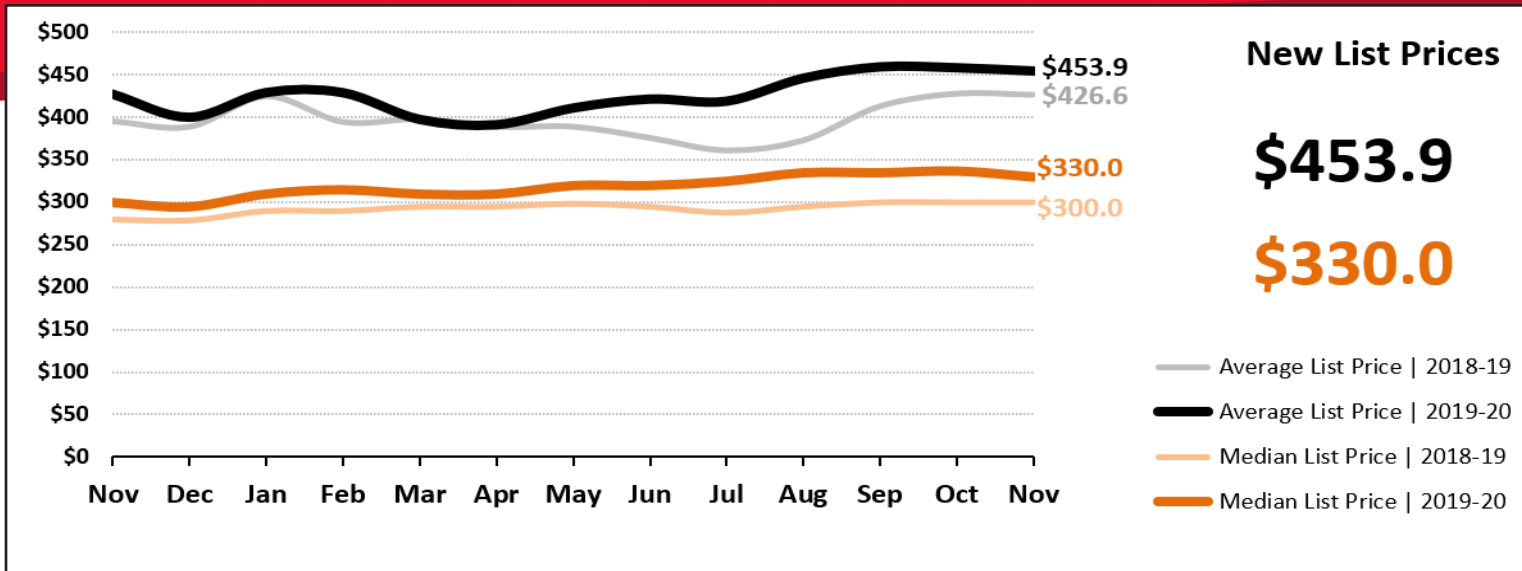
November UCB listings percent of total inventory was 35.2% with November CCBS listings at 4.2% of total inventory.

Snapshot of statuses on 11/30/20



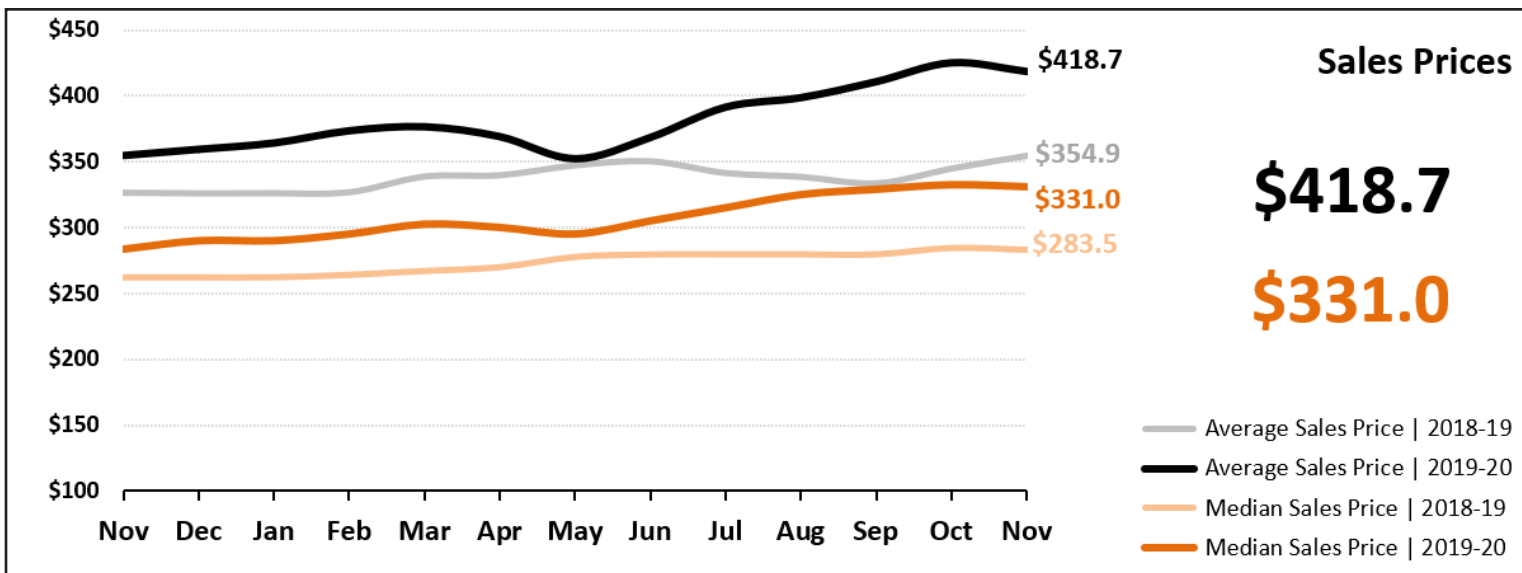
Months supply of inventory for October was 1.41 with November at 1.40.

Current inventory of Active/UCB/CCBS divided by the monthly sales volume of NOVEMBER 2020, 0 day DOM sales removed



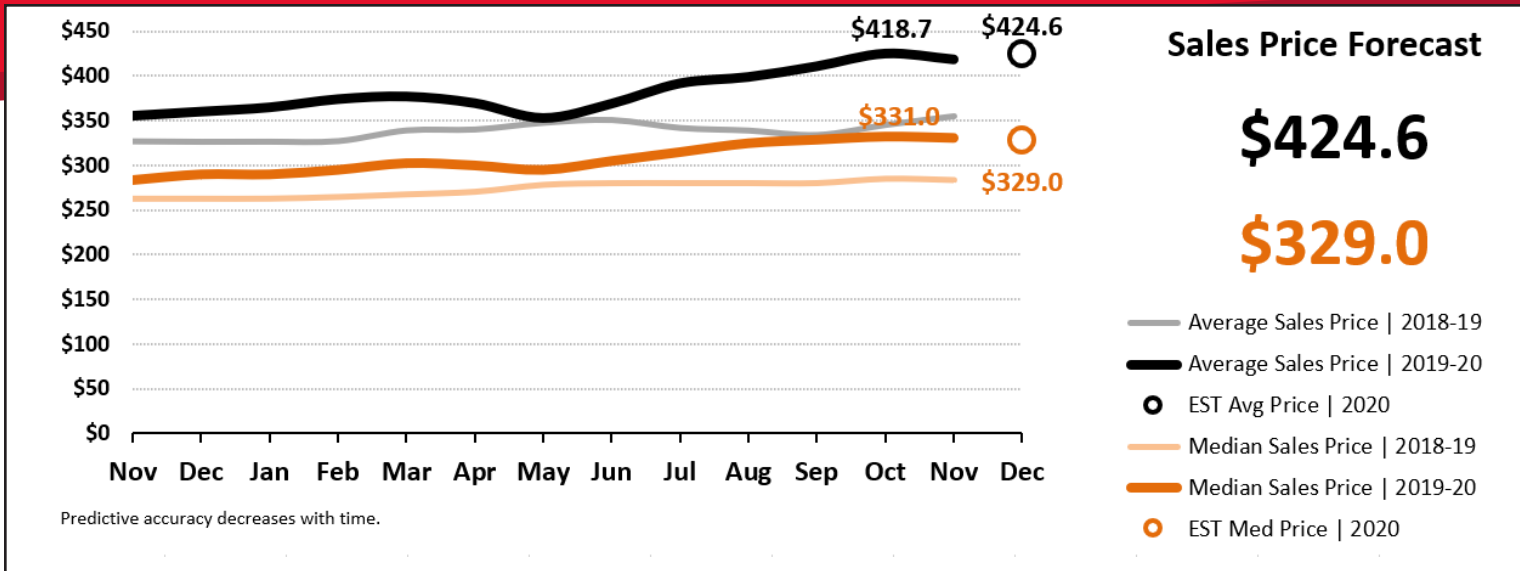
Average new list prices are up +6.4% year-over-year. The year-over-year median is up +10.0%.

List prices of new listings with list dates from 11/1/20 to 11/30/20, 0 day DOM sales removed



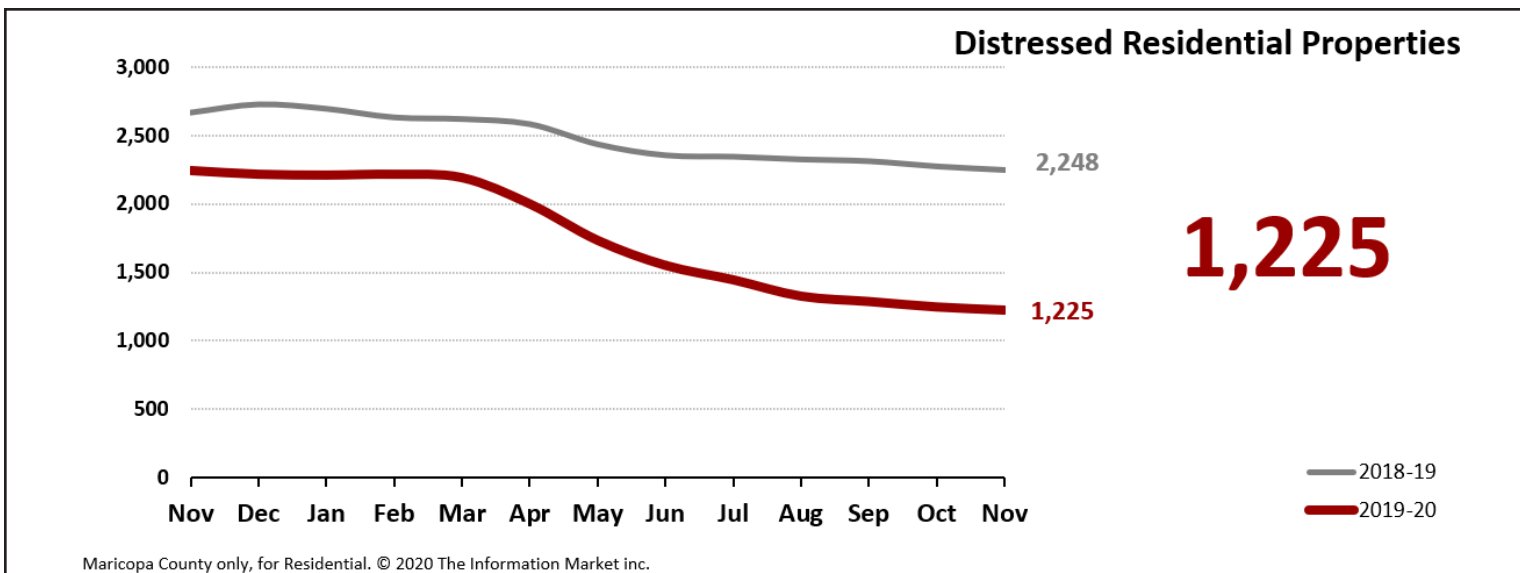
The average sales price is up +18.0% year-over-year while the year-over-year median sales price is also up +16.8%.

MLS sales prices for closed listings with a close of escrow date from 11/1/20 to 11/30/20, 0 day DOM sales removed



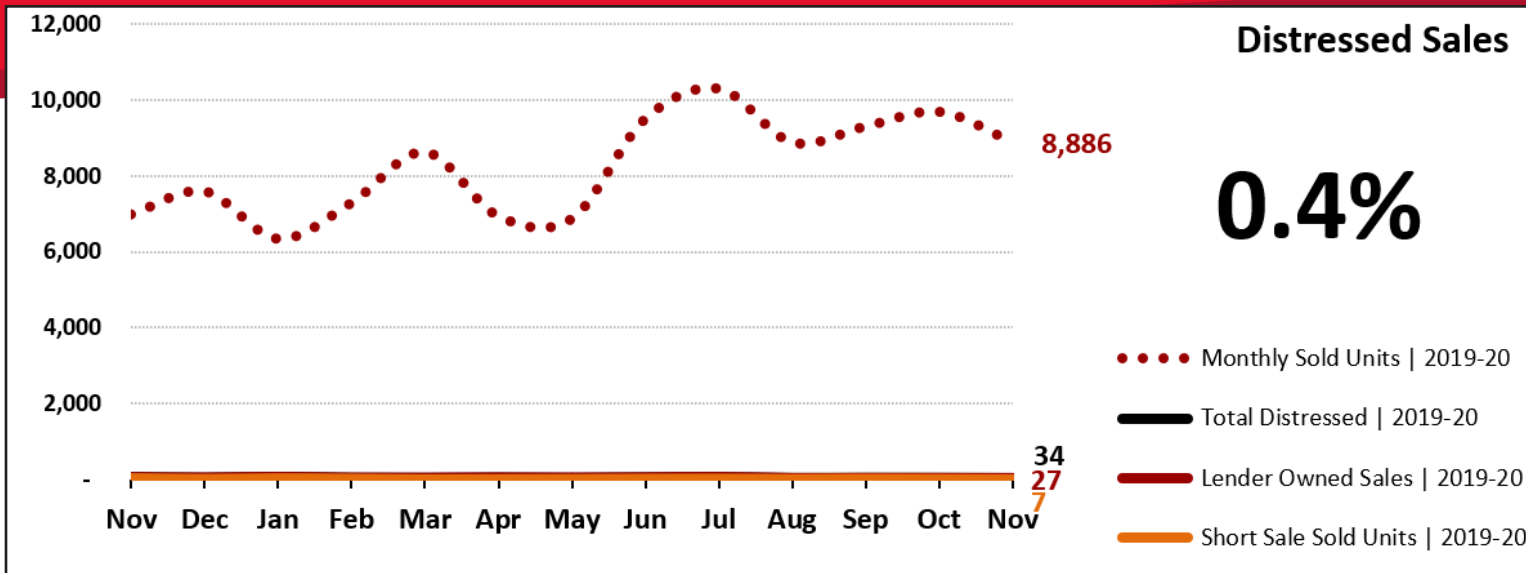
ARMLS proprietary predictive model forecast, 0 day DOM sales removed

An increase is forecasted in December for average sales prices while a slight decrease is forecasted in December for median sales prices.



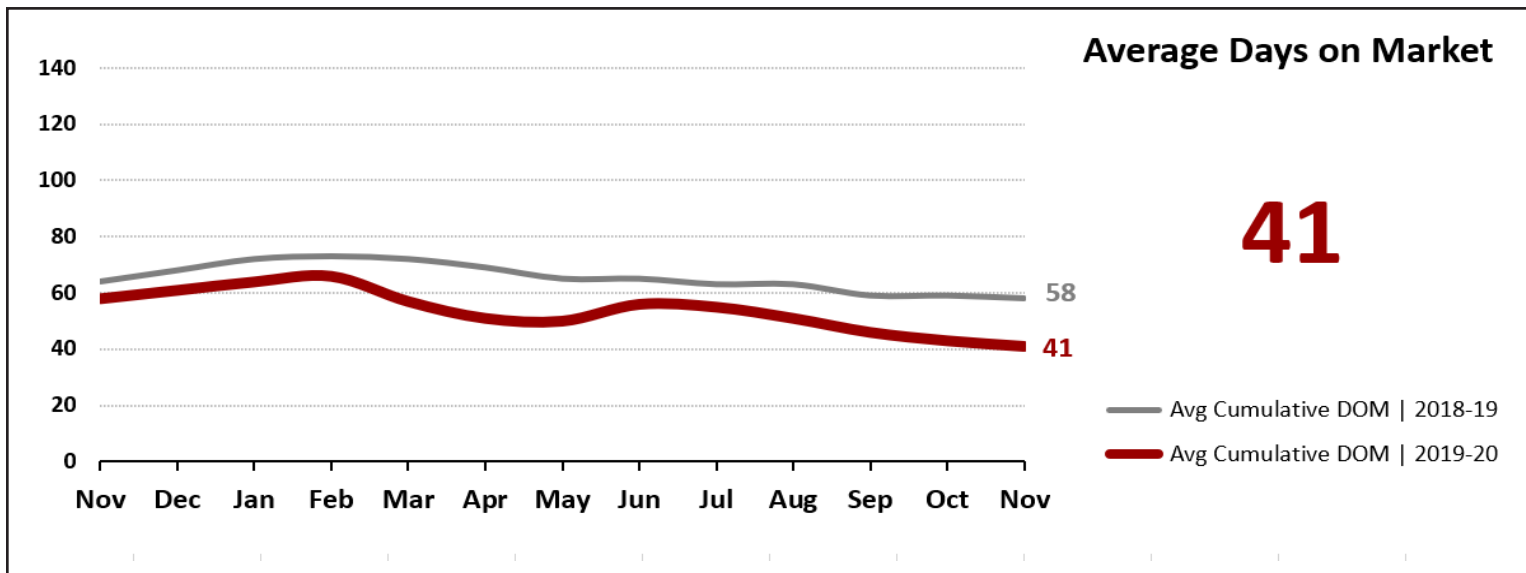
Foreclosures pending month-over-month showed a decrease of -1.8% while the year-over-year figure was down -45.5%.

Snapshot of public records data on 11/30/20 active residential notices and residential REO properties.



Distressed sales accounted for 0.4% of total sales, same as the previous month. Short sales dropped -58.8% year-over-year. Lender-owned sales decreased -41.3% year-over-year.

New MLS listings that were active for at least one day from 11/1/20 to 11/30/20, 0 day DOM sales removed



Days on market were down -17 days year-over-year while month-over-month went down -2 days.

MLS sales prices for closed listings with a close of escrow date from 11/1/20 to 11/30/20, 0 day DOM sales removed

## Market Overview

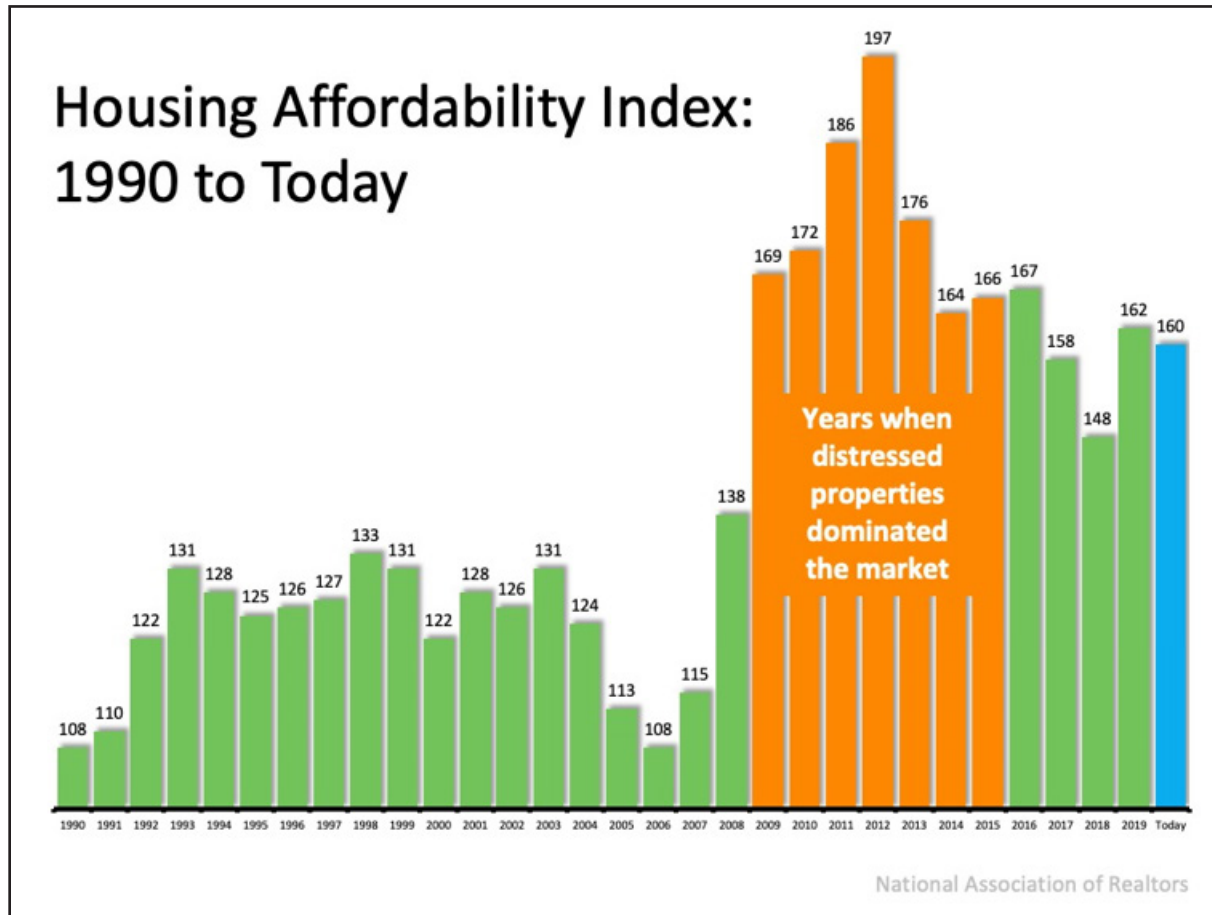
We begin December with 28.2% fewer homes for sale today than we saw one year ago, with many areas showing record lows for the number of homes available. At the same time, demand increased 27.4% year-over-year, with ARMLS reporting the highest sales volume for any November in history. Low supply and high demand can only mean one thing: higher prices. The average sales price was up 18% and the median sales price rose 16.8% year-over-year. In a recent blog post NAR discussed this phenomenon and its impact on affordability.

The National Association of Realtors (NAR) produces a [Housing Affordability Index](#) which takes these factors into account and determines an overall affordability score for housing. According to NAR, the index, “... *measures whether or not a typical family earns enough income to qualify for a mortgage loan on a typical home at the national and regional levels based on the most recent price and income data.*”

Their methodology states: “*To interpret the indices, a value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.*”

So, the higher the index, the more affordable it is to purchase a home. Here’s a graph of the index going back to 1990

## Housing Affordability Index 1990s via NAR





The blue bar represents affordability today. We can see that homes are more affordable now than they were from 1990 to 2008 and 2017 to 2018. Buying a home today is just a little less affordable than it was last year, but still very affordable compared to historical housing market trends. *Note: During the housing crash from 2009 to 2015, distressed properties (foreclosures and short sales) dominated the market. Those properties were sold at large discounts not seen before in the housing market.*

### **Why Are Homes Still Affordable Today?**

The number one factor impacting homebuying affordability today is record-low mortgage rates. There's no doubt that prices are on the rise. However, mortgage rates have fallen dramatically. Last week, *Freddie Mac* announced that the average interest rate for a 30-year fixed-rate mortgage was 2.72%. Last year at this time, the average rate was 3.68%.

If you're considering purchasing your first home or moving to your dream home, it's important to understand how affordability plays into the overall cost of your home. With that in mind, buying while mortgage rates are as low as they are now may save you quite a bit of money over the life of your home loan.

### **Bottom Line**

At this point, home purchase affordability is still in a historically good place. However, we need to watch price increases going forward. As Mark Fleming, Chief Economist at First American, noted in a recent post, *"Faster nominal house price appreciation can erode, or even eliminate, the boost in affordability from lower mortgage rates, especially if household income growth doesn't keep up."*

I would add to Fleming's remarks and state a rise in interest rates would also be an added concern.

## Perplexing Housing Analysis

This month in STAT, I would like to discuss two housing misconceptions which are frequently used to describe market conditions. One is current, and one is recently vanquished. Let me begin with the latter.

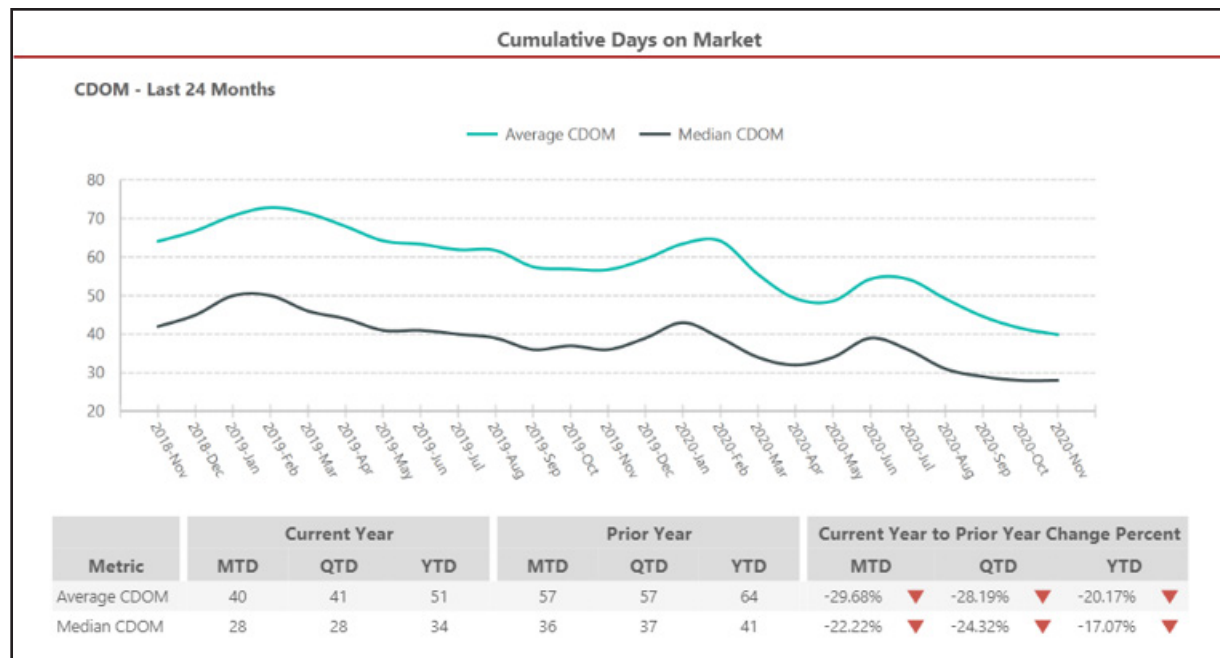
Beginning in early 2017 and throughout 2018 a commonly shared theory was lower sales volumes were directly related to low inventory levels. A prominent housing executive at the time stated, *“The overall industry for the first time is seeing sales volume really limited by inventory crunch.”* I questioned this analysis from the outset and with each new housing report I read over the next year and a half I saw this claim repeated, and with each new claim I became more and more perplexed. To me, there was no cause and effect. To the contrary, in 2005 when inventory levels hit record lows, we saw the highest number of home sales ever. And subsequently when inventory levels rose to their highest points in 2007 and 2008, we saw sales volumes crash.

When housing supply is limited, homes listed sell at a higher velocity and with a higher success rate. In 2005 the average days on market fell to 24 days while the success rate rose to 87%. Homes were selling extremely fast and most homes that were listed sold. In 2008 the average days on market rose to 136 for the homes selling with a success rate as low as 21%.

Which brings us to late 2019. As we entered the new year several analysts were predicting a year-over-year decline in sales volume due to the low number of listings. The thinking again being sales must drop because there are so few homes to sell. But with a current success rate of 92% and an average DOM of 40, the opposite held true. As 2020 concludes, yearly sales volumes will have increased every year since 2014, while at the same time there has been a reduction in available homes for sale.

I would like to make one final point regarding DOM. In 2005 the average DOM hit a low of 24 days (this was before Zillow became a household word). The formula for how DOM is calculated has not changed but the way in which agents report their listings under contract has changed, with many preferring to stretch the UCB status to keep their listing “active” on syndication websites. Today, the actual DOM number (40) is most likely much closer to the 2005 number (24). The current median DOM is 28.

### Cummulative Days on Market via RapidStats



The second misconception among housing analysts is happening now and centers on foreclosures. There seems to be some concern that the 2020 economic downturn will lead to another foreclosure crisis like the one experienced over a decade ago. Michael Orr of the Cromford Report brilliantly debugs this notion in his monthly commentary.

*“There seems to be a certain amount of denial in some quarters. Concerns about delinquency rates and forbearance are being widely discussed. The idea is often expressed that this can reverse the current situation, as if this is a foregone conclusion. We do not think the level of delinquency is anything like high enough to seriously disrupt the housing market. For such drama you probably need to look to the commercial real estate market, particularly the retail, office and hotel sectors. Housing has been bolstered by the pandemic. This is a worldwide phenomenon, not confined to Arizona or even the USA. At times of medical emergency, people really value their homes across the globe.*

*“We would agree that a market cannot keep getting hotter forever, but according to Black Knight Financial Services, the level of delinquency has fallen for the last 5 months. Pre-payment activity is the highest since 2004. It is likely that we will see more distressed sales in 2021 than 2020, but 2020 was a record all-time low and reverting to normal would help a bit with the supply situation. In fact we would have to see a colossal increase in delinquency from current levels just to get back to normal supply conditions.*

*“There is a widely held but mistaken belief that foreclosures cause price declines. It is the other way round. Price declines destroy owner equity which eliminates their incentive to avoid foreclosure. In fact in Arizona foreclosure becomes a preferred option when you have negative equity because it wipes out all the loan, not just the amount covered by the trustee sale proceeds. Many other states do not allow this. Short sales do a similar thing but require many parties to cooperate. Foreclosure is easy and quick and you walk away with your loan written off.*

*“However when you have significant equity the situation is very different. The owner wants to release that equity for their own use. With the average appreciation over the last 12 months of 16%, most owners currently have a lot of equity. Smart people are not going to let their home go to foreclosure if they can help it; they will sell it and repay their loan with the proceeds, keeping the excess funds and their credit intact. This will continue unless prices decline significantly. Prices only decline when there is an excess of supply.”*

## **Pending Price Index**

Last month the STAT mathematical model projected a median sales price for November of \$330,000. The November reported median was \$331,000. For the seventh straight month our mathematical model slightly underestimated our reported median sales price. Looking ahead to December, we expect little to no change in the median sales price. The ARMLS Pending Price index is projecting a median sales price of \$329,000. This is the time of year when prices tend to moderate.

We began December with 6,762 pending contracts, 4,387 UCB listings and 529 CCBS giving us a total of 11,678 residential listings practically under contract. This compares to 9,359 of the same type of listings one year ago. At the beginning of December, the pending contracts were 24.78% higher than last year. There were 21 business days in December of 2019 and 22 this year. ARMLS reported 7,585 sales in December of 2019. We will see year-over-year sales gains this December. My guess, sales volume in December will approximate 9,500. The highest sales volume ever in December occurred in 2010 when ARMLS reported 8,401 home sales. When the December sales are reported we will see another new record.