



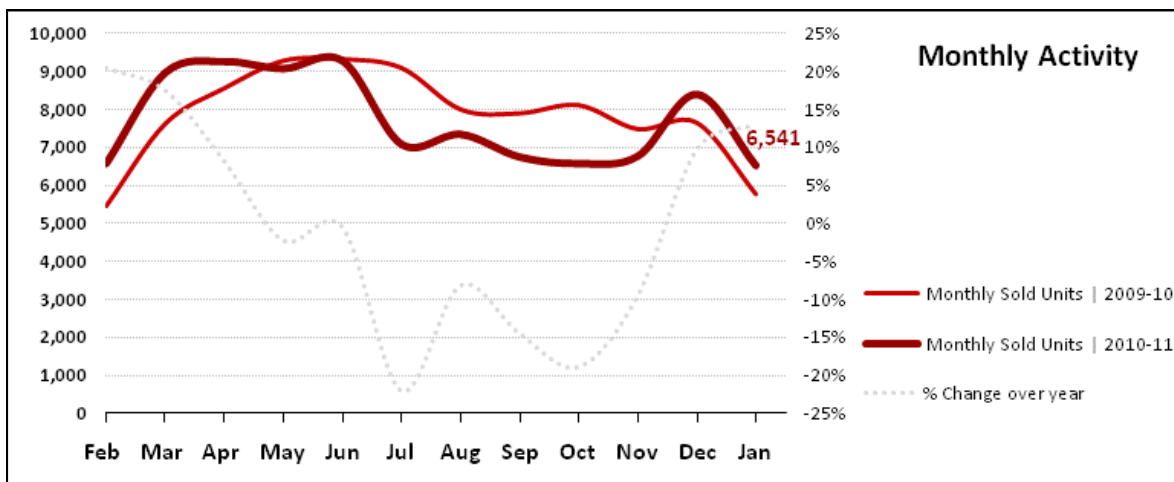
SALES Month over Month

The new year, buoyed with optimism from the December sales figures, was put back into its place with a disappointing 22% decline in January sales. The total number of closed sales in January was 6,541 compared to December's 8,401. The natural sales decline from December to January has occurred every year since December 2001. This Dec/Jan drop is the second highest of the decade, surpassed only by the Dec 2008-Jan 2009 decline of 24.4%. However, the January figure is only a small deviation from November. If we consider that December was an anomaly driven by seasonal pressure to close by December 31st, then the market simply picked up where it left off in November. In any event, the Valley continues to struggle.

SALES Year over Year

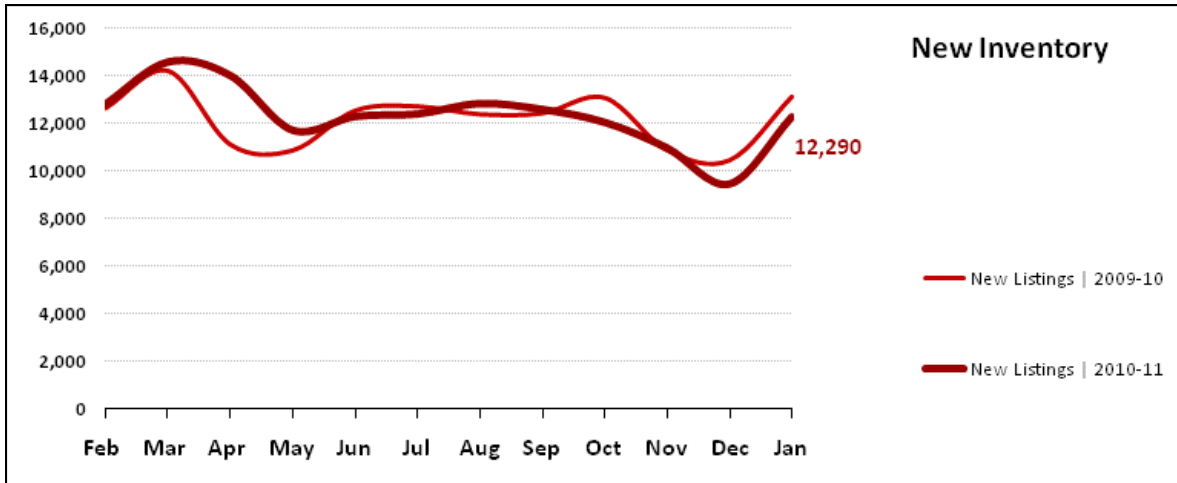
Sales for January at 6,541 rose 13% over January 2010 (5,789). Both December 2010 and January 2011 sales figures are higher than their preceding year's counterpart. While it is tempting to project that this is as an indication of a better year to come, it mimics the robust increase (22.1%) of January 2010 over 2009, which disappointed us with year over year declines from May through November. It is, however, the second highest since 2001.

Total yearly sales have been trending upward starting in 2006. With the exception of the record high total sales set in 2004 and 2005 (98,922 and 104,725), the total sales for 2009 and 2010 represent the 3rd and 4th highest of the decade (93,308 and 91,972). The positive year over year sales figure for this January though is a good start, and fuels optimism that 2011 will follow the total yearly sales patterns of 2009 and 2010 .



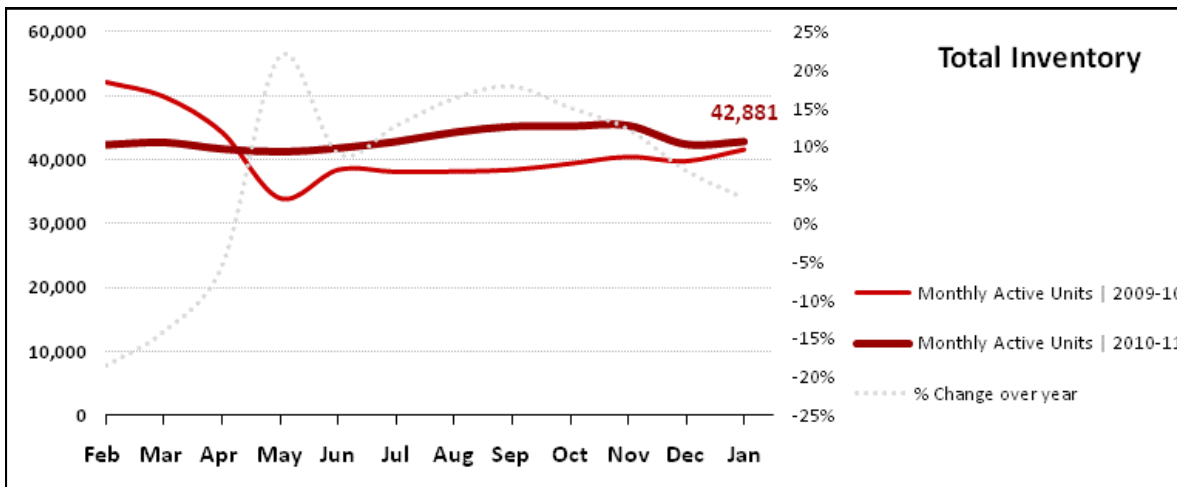
NEW INVENTORY

Total new listings are up 30.1% in January to 12,290. This is a reversal of the declining trend in new inventory from September through December, but is typical of every January of the decade. While the increase in January's new inventory is no surprise, its 30.1% is well below the decade's average January rise of 63.74%.



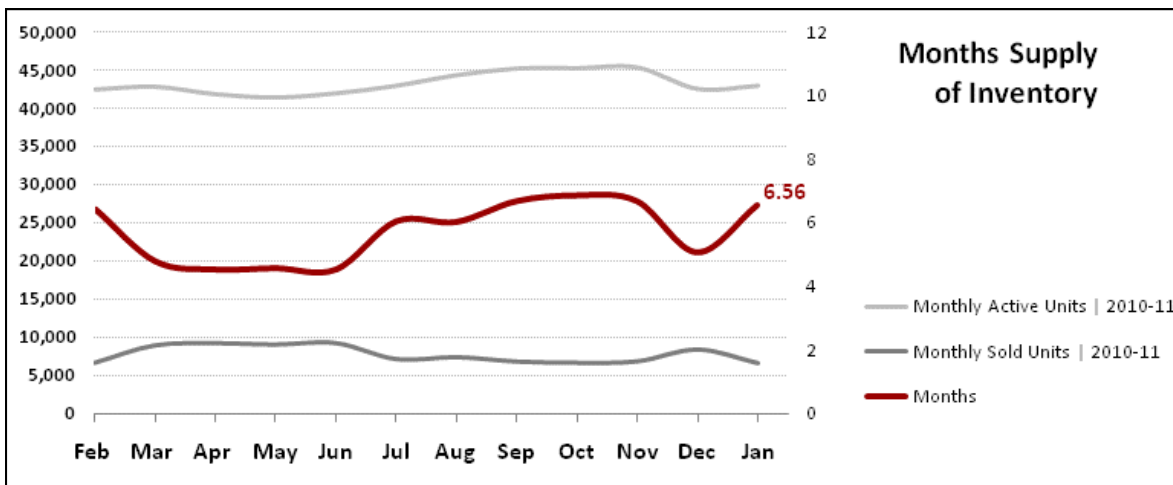
TOTAL INVENTORY

Total inventory remained relatively stable with only a 1% increase to 42,881. Total inventory has fluctuated within a narrow range between 41,317 and 45,353 for the last twelve months, with the average monthly inventory of 43,202. Total inventory is a key component of supply and demand.



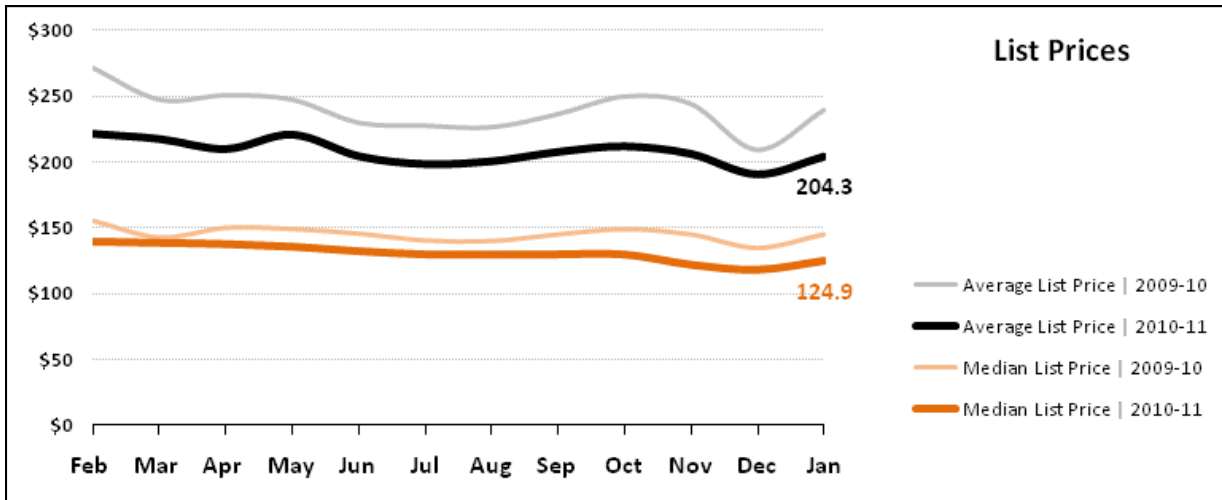
MONTHS SUPPLY OF INVENTORY (MSI)

Not surprisingly, the MSI for January jumped to 6.56 from December's 5.05, an aberration when considering that MSI has hovered above six months since July. While a market-wide MSI is not reflective of months supply in smaller niche markets, it is a barometer of the overall supply and demand balance and health of the market. At 6.56 we are clearly in a Buyer's market. Such conditions do not support any significant rise in the average or median sales prices. Until total inventory declines and sales rise, we can expect that the market will remain favorable toward Buyers.



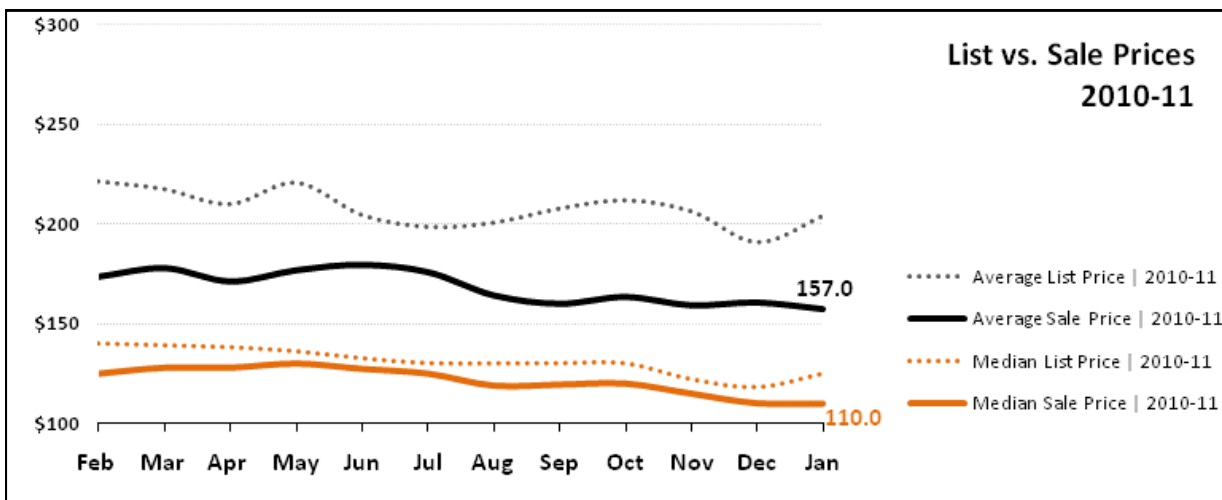
NEW LIST PRICES

New list price took a jump in both the average and median in January. The average new list price rose 7% from December's \$191,000 to \$204,300. The median new list price rose 5.8% from December's \$118,000 to \$124,900. Unfortunately rises in new list prices do not directly correlate with increases in actual sales prices. However, if December's numbers were an anomaly driven by seasonal Seller reticence, leaving only new Sellers who must sell to drive the new list prices, then January figures are close to where the market left off in November .



SALES PRICES

The median sales price for January held stable at \$110,000, only a .2% decline from December's median of \$110,200. The average sales price fell by 2.1% to \$157,000 from \$160,400. Downward pressure on prices continues in the current buyer's market, as a result of high inventory levels and the disproportionate percentage of distressed sales in the overall sales count. The looming high levels of foreclosures pending will prolong the downward pressure.

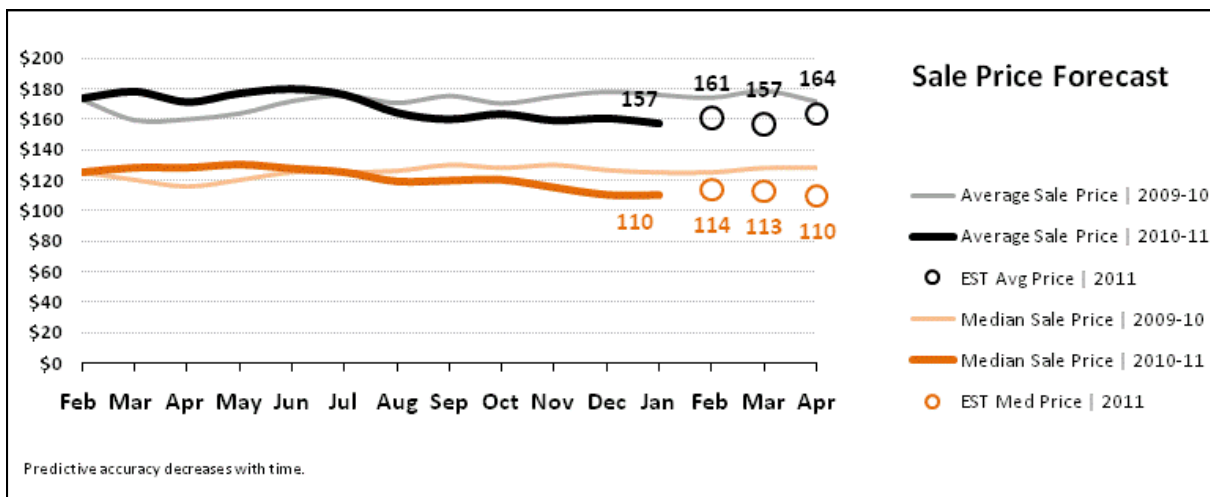


THE ARMLS PENDING PRICE INDEX™

Pending properties in the MLS system continue to be reliable predictors of median and average pricing ninety days into the future. The ARMLS Pending Price Index (PPI™) is a metric unique to ARMLS since only ARMLS possesses sales price data on properties under contract awaiting future closing.

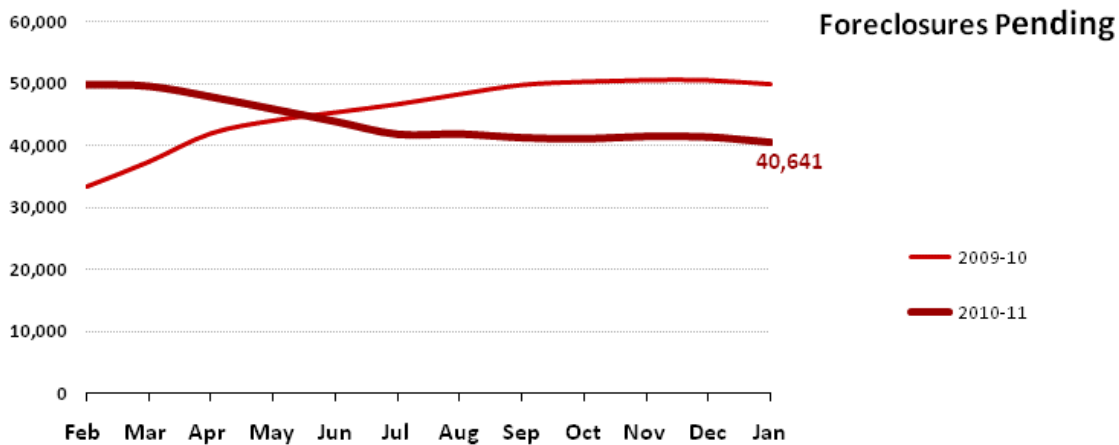
Last month the PPI predicted \$159,400 as the average sales price for January. The actual figure fell short of the prediction by 1.51%, with January's average sales price coming in at \$157,000. This follows a steady 12.73% (\$22,900) decline in average sales price that started with June's twelve month high of \$179,900, and culminated in January at \$157,000. The predictions for the average sales price for February, March and April are \$161,000, \$157,000 and \$164,000 respectively, a pattern reminiscent of a fish flopping around the bottom of the boat trying desperately to get over the gunwale.

The median sales price predicted by the PPI last month was \$115,000, but the actual figure fell 4.35% lower to \$110,000. This may be reflective of the large percentage of distressed properties in the pending property pool exerting downward pressure on the market's median price. PPI's predictions for median sales price for February, March and April are \$114,000, \$113,000 and \$110,000 respectively.



FORECLOSURES PENDING

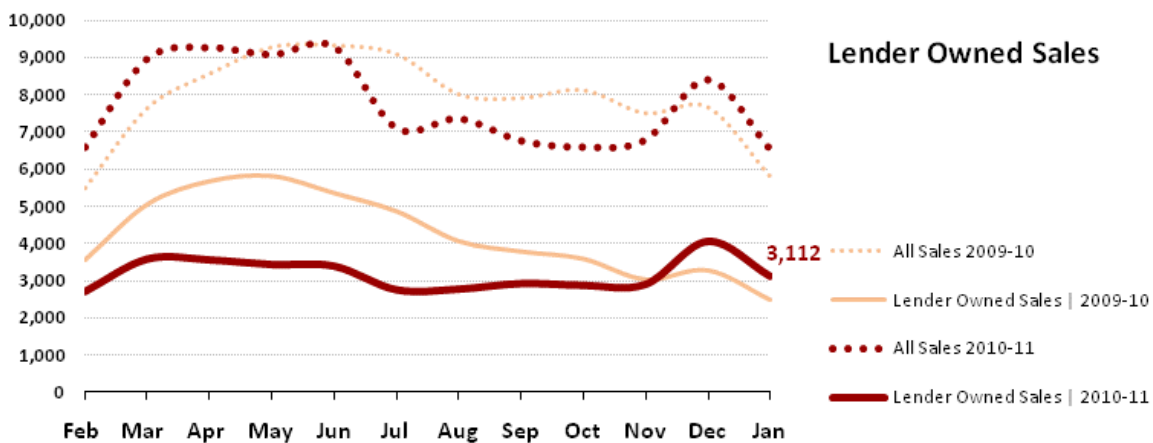
Foreclosures pending fell to 40,461 from the previous month's 41,485, continuing on a steady, fourteen month downward trend that marked its high point in November 2009 at 50,568, and ended this month 20% lower (a drop of 10,107). These levels though remain very high, and since they are not yet on the market, they are a reliable harbinger of continued downward pricing pressure well into the future. Foreclosures pending must wend their way through the system before they enter the marketplace and are absorbed as new sales.



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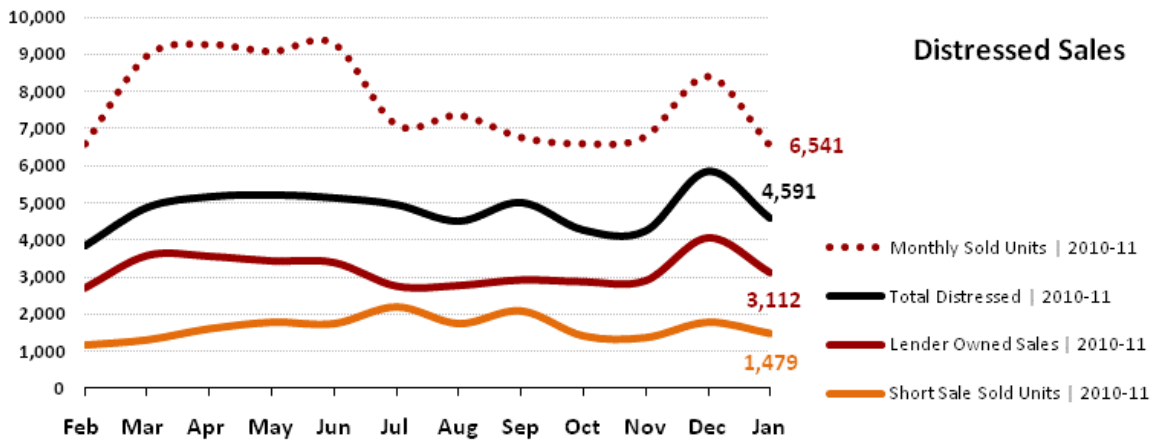
LENDER OWNED SALES

Lender owned sales fell 23.37% from December's 4,061 to January's 3,112. The current figure is in line with the twelve month average of 3,170. Lender Owned Sales in January accounted for 47.6% of total sales.



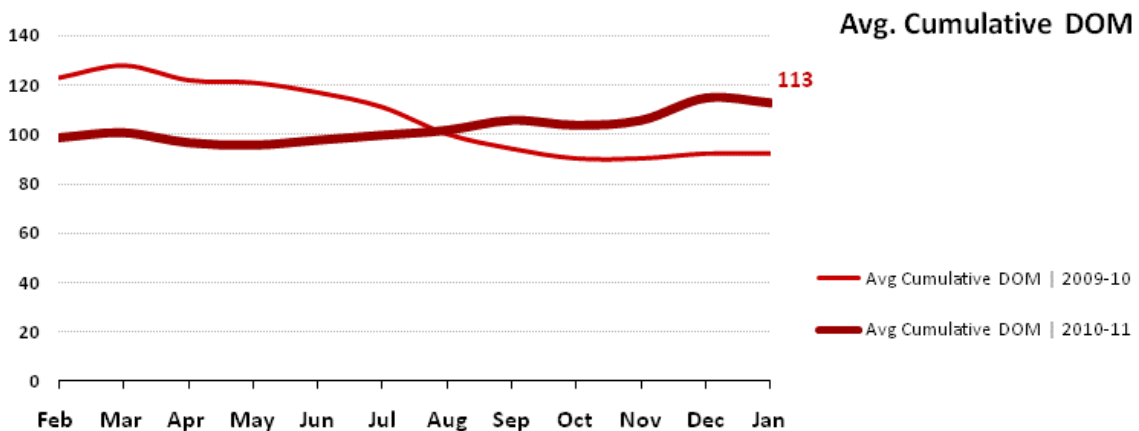
DISTRESSED SALES

Distressed sales are a composite of closed Short Sales and sales of Lender Own Properties. They exert a disproportionate pressure on the supply and demand balance and negatively affect average and median prices of both listings and sales. Of the 6,541 total sales in January, 70.2% (4,591) were distressed. Closed Short Sales of 1,479 accounted for 22.61% of total sales and 32.22% of all distressed sales, as Lender Owned Sales continued to dominate the market.



AVERAGE DAYS ON MARKET

Average Days on Market dropped two days from December's 115 days to 113 in January, making December and January the highest DOM in the last twelve months. Days on market will typically be lengthened in a Buyer's market, as the consequence of large inventory and a smaller Buyer pool.



COMMENTARY

The numbers for January are disappointing, yet they follow a very typical seasonal pattern: decrease in sales at the start of the year and increase in inventory as Sellers come back into the market after the holiday season. On the pricing front, the market seems to be engaged in the perfect storm: small Buyer pool, very large inventory, high foreclosures pending, and disproportionate percentage of distressed sales: all creating a greater Months Supply of Inventory and higher Days on Market. Like all storms there is no other strategy but to wait it out. The PPI shows that prices will continue flopping along the bottom, and the high numbers of foreclosures pending indicate that as the market glut of lender owned properties are sold, there will be plenty more to take their place, for some time into the future.

Accompanying the disproportionate percentage of distressed sales is the discomfoting reality that lenders, through their negotiation on short sales and liquidation of lender owned properties, exert undue influence on the Valley pricing. It is always an unhealthy phenomenon when any sector dominates a market, but 70.2% distressed sales is chronic pain and suffering. However, more short sale closings mean those properties don't go to foreclosure. That's good. More foreclosure sales means we are getting rid of them, albeit slowly. That's good. And the pending foreclosures are coming down which means fewer replacement lender owned listings. So an increase in the number of distressed sales may just be the medicine the market has to take for a while to help it on its way.

Many economic indicators evidence that recovery has started. On the national level, the U.S. Commerce Department released an advance estimate of gross domestic product (GDP) for the fourth quarter of 2010, indicating a 3.2 percent annual rate in the fourth quarter, up from a third quarter growth rate of 2.6 percent.* The Bureau of Labor Statistics reports the net change in unemployment in Q2 was 728,000, the first positive net employment change since the recession began in December 2007. In addition, the national unemployment rate fell by 0.4 percentage point to 9.4 percent in December. **

In Arizona, employment in most sector categories (manufacturing; wholesale and retail trade; transportation, warehousing and utilities; finance, insurance, real estate; professional and business services; education and health services; leisure and hospitality; non-farm) realized a month over month gain from November to December 2010. The Phoenix Metropolitan Area (Maricopa and Pinal Counties) mirrors the same pattern. ***

The essential ingredients to the Valley's real estate recovery have always been jobs and net migration. In Maricopa and Pinal counties, the December unemployment rate declined for the sixth month in a row to 8.41%, compared to the state rate of 9.14%. The decline, coupled with the employment growth in many sectors, is a healthy sign. Unfortunately, population increase from 2008 to 2009 was only .9%, and 2010 figures may be even lower, given the loss of residents due to immigration issues. *** A new resident considering a relocation to the Valley will look for affordable housing, financing and a job. The first two we have covered, and we are creeping in the right direction on the third.

* <http://www.commerce.gov/news/press-releases/2011/01/28/statement-us-commerce-secretary-gary-locke-advance-estimate-gdp-fourth>

** <http://www.bls.gov/bls/newsrels.htm#major>

*** EBR Database Online