



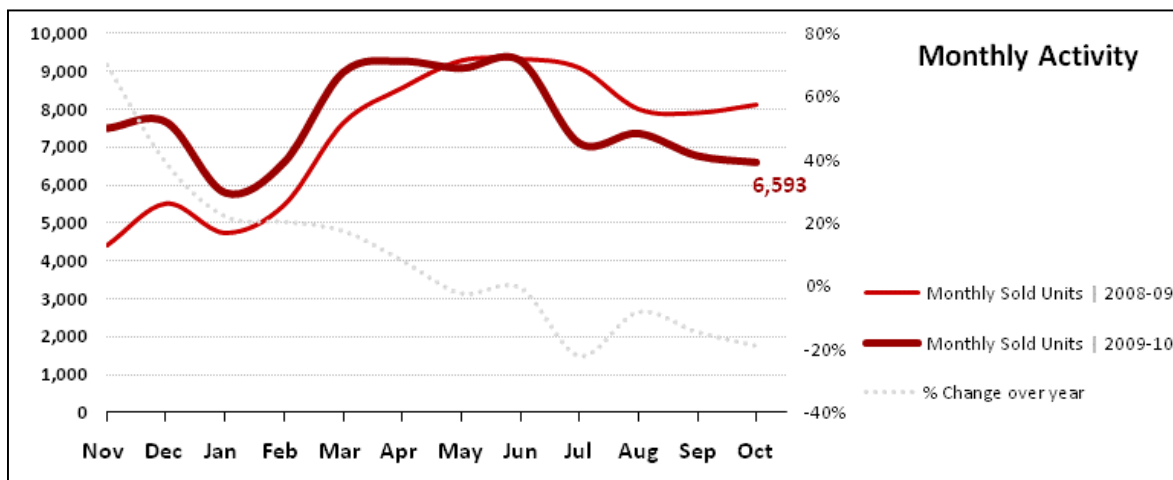
November 8, 2010

**SALES Month over Month**

Sales in October declined to 6,593, representing a 2.5% decrease from September. Despite an anemic rally in August, the October Sales trend line follows a downward direction that started in July. A natural decrease from September to October is a typical pattern set in seven of the last ten years. October's figure though, is identical to February's, negating the optimism fueled by positive gains from March through June.

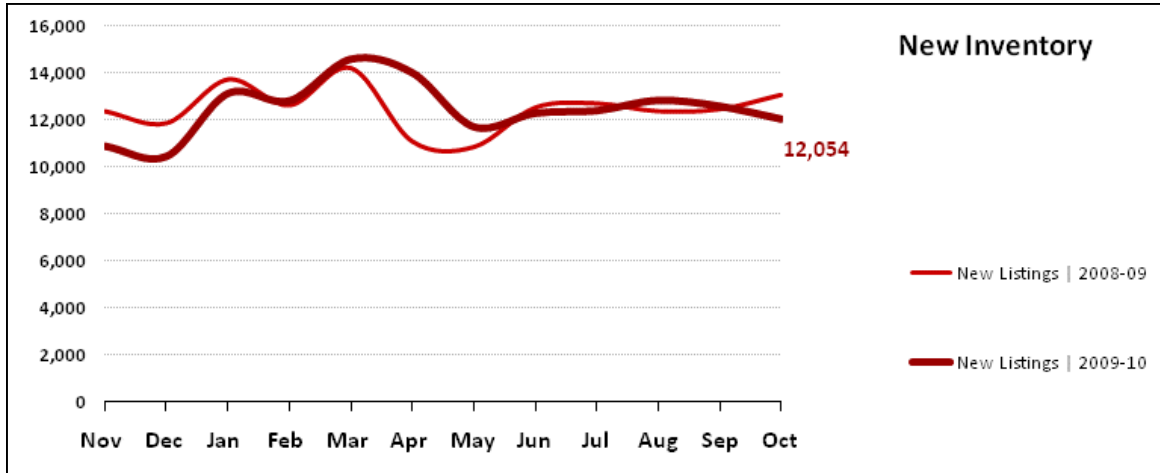
**SALES Year over Year**

October Sales represent an 18.8% drop over sales in October 2009. Such a steep decline comes as a huge disappointment amidst hopes the market had hit bottom in 2009. Sales gained positive momentum adding diminishing positive year over year gains each month from November 2009 through April 2010. Starting in May and continuing through October, the overall monthly trend line showcased year over year losses.



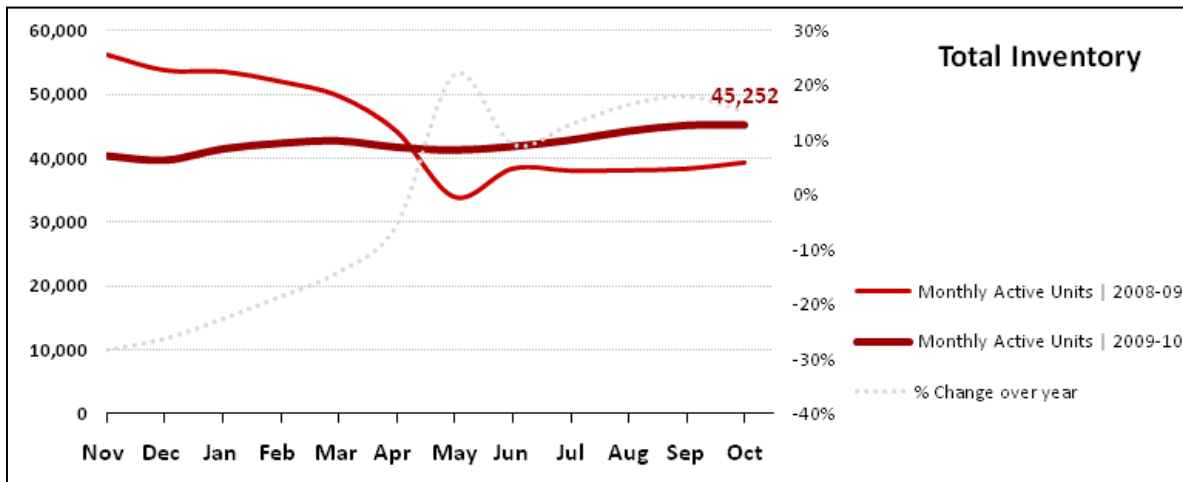
## NEW INVENTORY

New listings added to the market decreased for the second month in a row to 12,054, representing a 4.3% decline in new listings from September. Only two years over the past decade (2005 and 2006) showed a reduction in new inventory from September to October. A decline in new listings for a market in fragile recovery can be viewed positively, since new inventory affects the supply and demand balance which is currently in over supply.



## TOTAL INVENTORY

Total inventory rose again in October to 45,252 listings. October was the fifth month in a row with an increase over the preceding month. The trend line of total inventory over the past twelve months shows a gradual steady increase. October's figure represents a 15.1% increase over the same figure for October 2009.

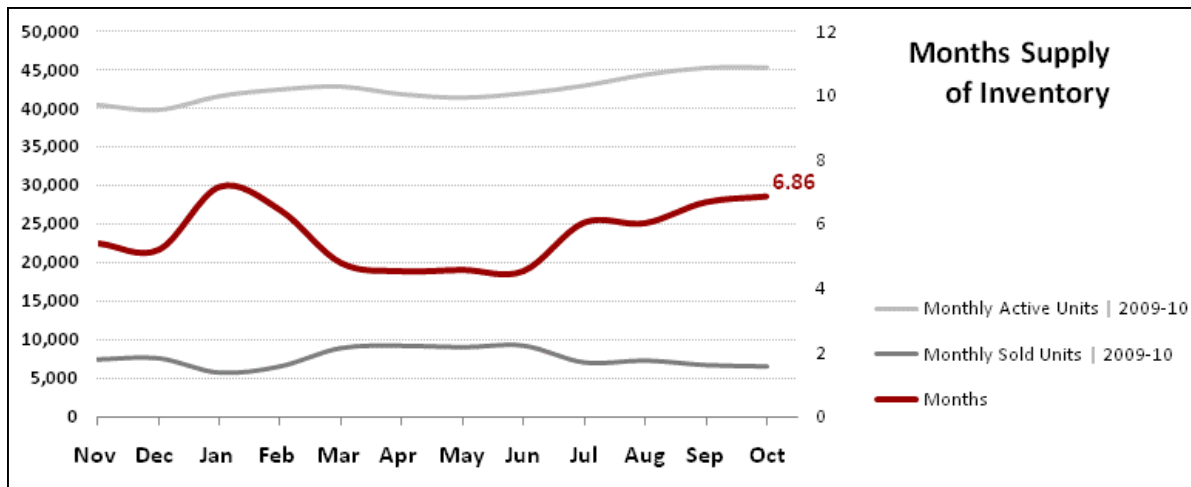


## MONTHS SUPPLY OF INVENTORY (MSI)

October's Months Supply of Inventory at 6.86 months continues a steady march from a Seller's market, enjoyed in the second quarter, to the current Buyer's market begun in Q3. Current trends of rising total inventory and falling sales continue to tip the supply and demand balance in favor of Buyers.

A Seller's market has a Months Supply of Inventory at or below a 4-5 month supply. A Buyer's market is typically defined by a six month or greater supply of inventory. ARMLS® anticipates this trend to continue through Q4 as the market sales activity follows the typical seasonal slowdown.

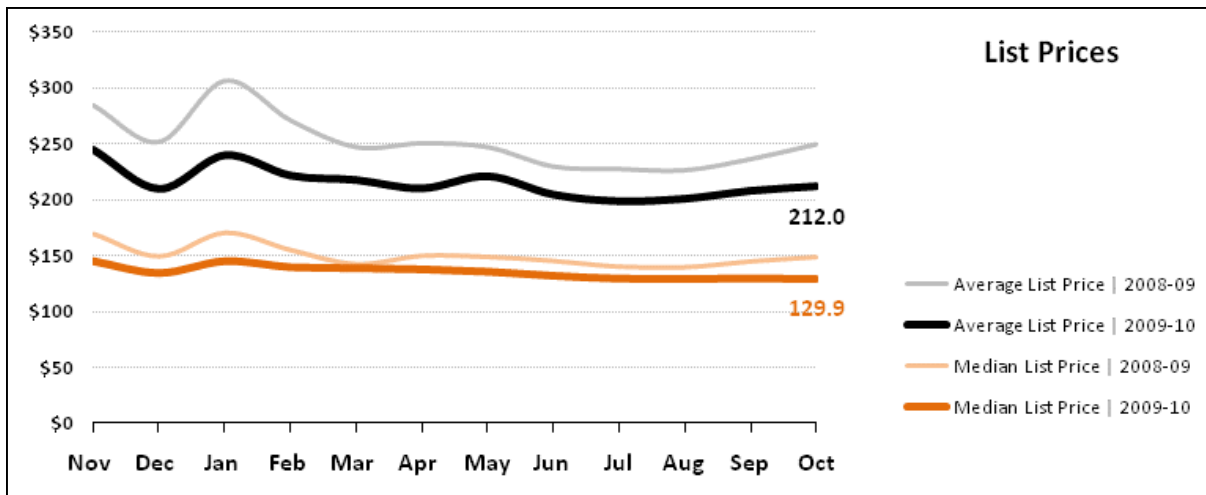
STAT's Months Supply of Inventory is a macro look at supply and demand, and only intended to be a barometer of overall market health. Smaller niche markets in the Valley will have their own distinct supply of inventory that may or may not parallel the macro figure.



## LIST PRICES

Median List Price of new listings, which declined from September to \$129,900, has remained relatively static, fluctuating only .1% up or down since July. October's Median List Price represents 12.7% decline from the October 2009. Median list price is the midpoint where there are as many properties listed above \$129,900 as there are below. This metric is considered to be less influenced than the Average List Price calculation by a small number of highly priced homes.

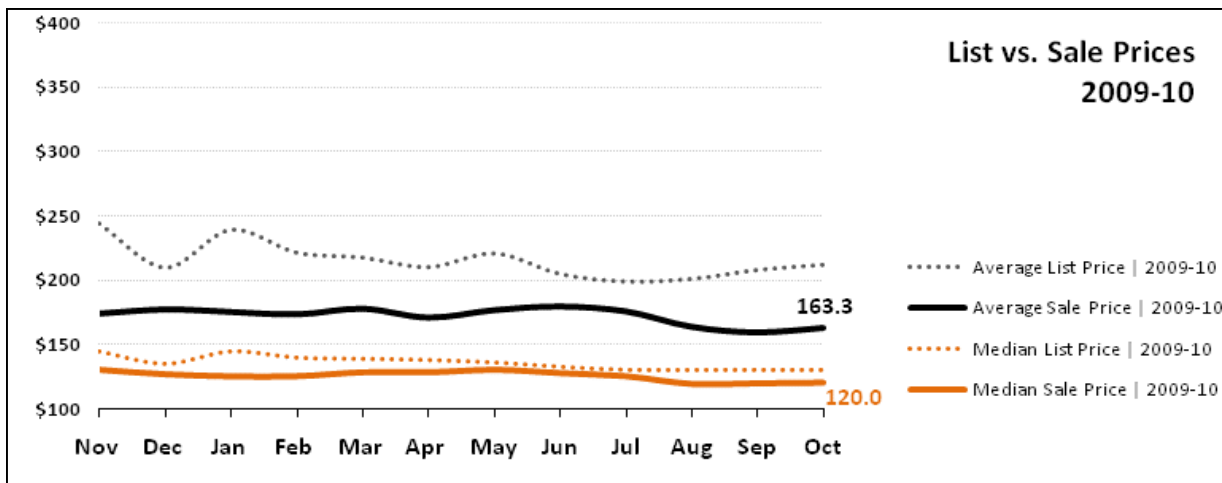
The Average List Price, however, increased for the third month in a row to \$212,000, representing a 2% gain over September, and indicating that more higher priced homes entered into the Average List Price calculation. While this is positive news, it is a disappointing 15.2% decline from the same figure for October 2009, due to negative pricing pressures over the past year. However, decline in the Average List Price year over year also reflects an increment in Seller realism about pricing gained over the preceding twelve months.



## SALES PRICES

Good news on the Sales Price front surfaces in October with rises in both the Median Sales Price and the Average Sales Price. Median Sales Price rose .41% to \$120,000. With the inclusion of three months in 2009 and two months in 2010 where the Median Price bounced between \$115,000 and \$120,000, October's Median Sales Price is among the lowest of the decade.

Average Sales Price rose 2.2% from September to \$163,300. An increase indicates that higher end home prices are being included in the Average Sales Price calculation. The October Average Sales Price is 4% lower than the same figure for October 2009.



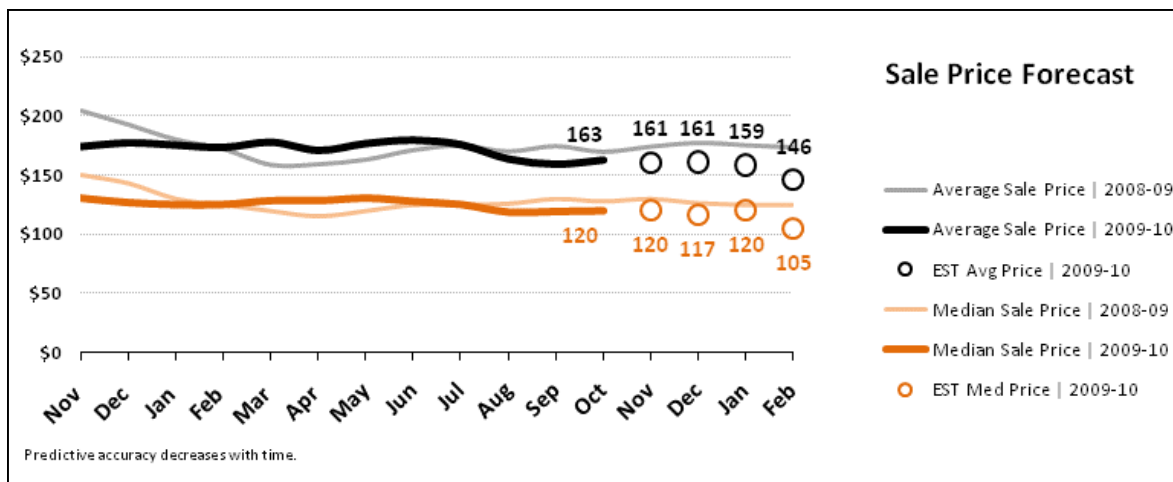
## THE ARMLS PENDING PRICE INDEX™

The ARMLS Pending Price Index™ is a predictive tool unique to ARMLS which uses pending prices of homes under contract in the MLS system to forecast the Average and Median Sales Prices four months into the future.

September's prediction for the October Average Sales Price was within .61% of the actual October figure of \$163,300. September's prediction of \$120,000 for the Median Sales Price in October enjoyed 100% accuracy.

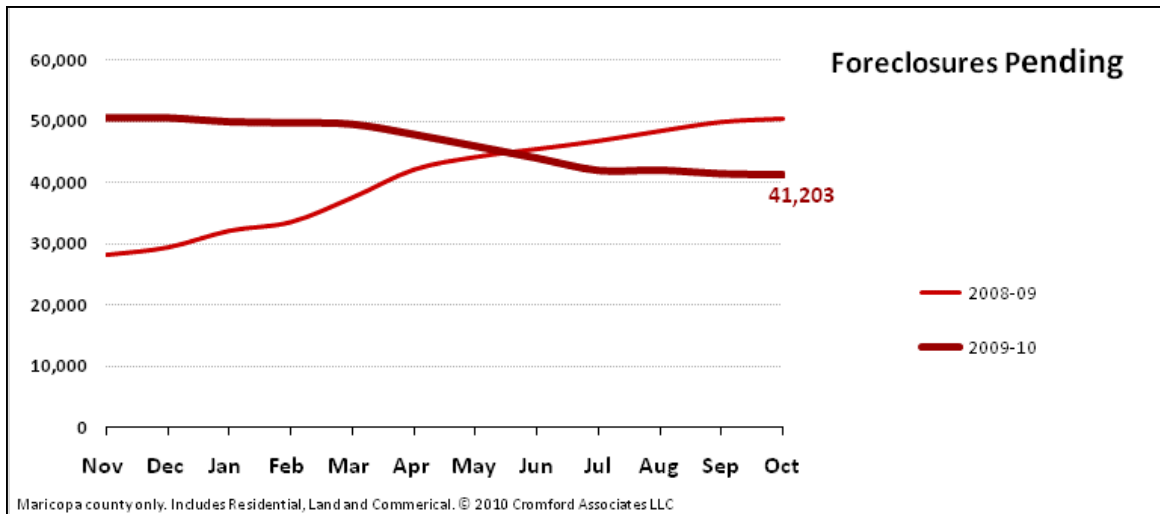
The October PPI predicts Median Sales Price to remain relatively unchanged in November at \$120,000, fall in December to \$117,000, rise in January back to \$120,000, only to take a 12% decrease in February to \$105,000. This is a typical bounce-around-the-bottom pattern typical of fragile markets reaching for recovery. Note that predictions have less reliability the further into the future they go.

Average Sales Price predictions parallel the Median Sales Price pattern. Expect the Average Sales Price to fall to \$160,700 in November, rise slightly to \$161,200 in December, only to fall to \$158,600 and \$145,800 in January and February respectively. The falling Average Prices for January and February 2011 follow the same pattern of January and February in 2009 and 2010. In all but one year (2002) since 2001, the average Sales Price took a drop from January to February.



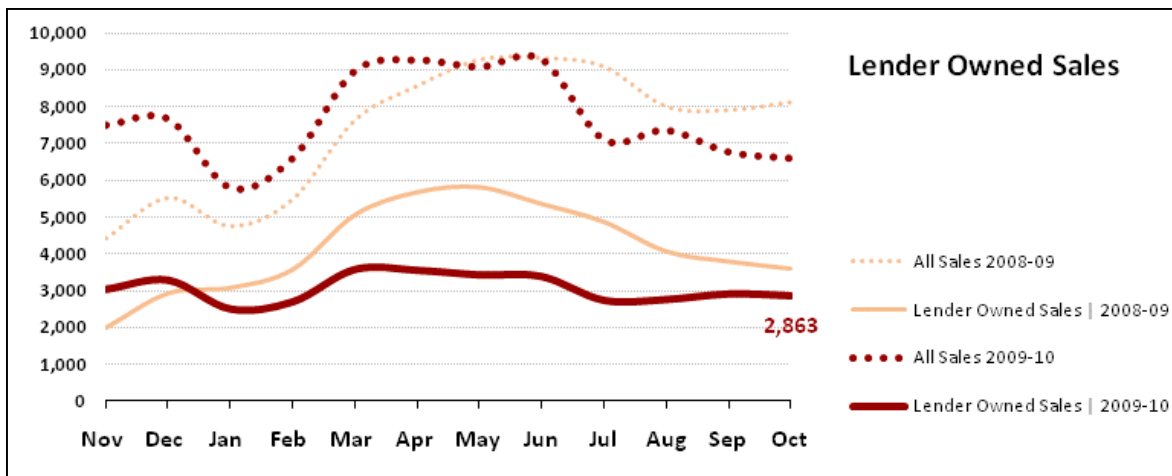
## FORECLOSURES PENDING

The trend line of Foreclosures Pending has been on a decidedly downward path over the past twelve months. In April the downward trend changed to a more gentle decreasing gradient. October's Foreclosures Pending (41,203) continued on the same gentle downward grade with only a .4% change from September to October. This small month over month change may signal a leveling of the downward trend. The October figure is 18.1% lower than the same figure for October 2009.



## LENDER OWNED SALES

Total Lender Owned Sales dropped from 2,911 in September to 2,863 in October, representing a 1.64% decline. Lender Owned sales as a percentage of total sales, ticked up slightly to 43.4% in October, up .4% from September.

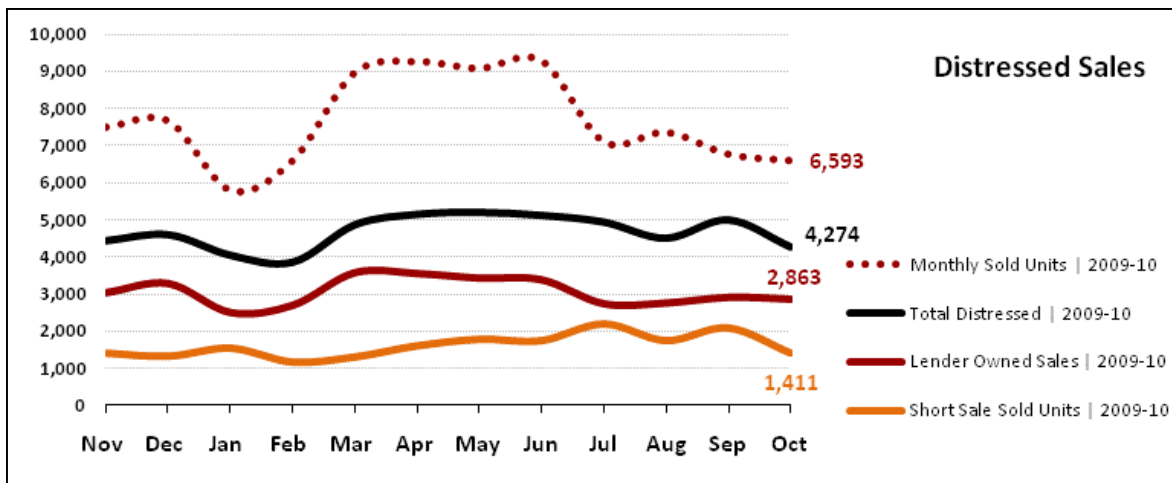


## DISTRESSED SALES

Total Distressed Sales (closed Short Sales + Lender Owned Sales) as a percentage of total sales peaked in September at 74.1%. October's Distressed Sales (4,274) represents 64.8% of total sales (6,593). Distressed Sales broke down into 1,411 Short Sales and 2,863 Lender Owned Sales. Since Distressed Sales exert negative pressures on pricing, a significant reduction in the total Distressed Sales is a key factor in market recovery.

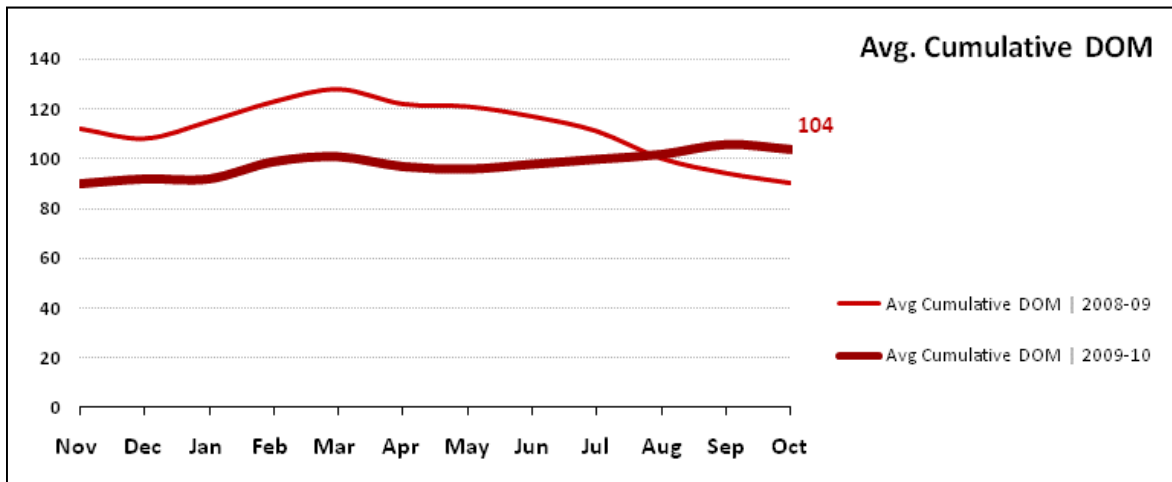
Total Short Sales monthly for April through September ranged between 1,611 and 2,216. In October Short Sales dropped 32% from September to 1,411, but still represented 33% of Total Distressed Properties. On average over the last 10 months, there were 1,664 closed Short Sales per month, with the highest months being July (2,216 or 44.9% of Total Distressed Sales) and September (2,104 or 41.9% of Total Distressed Sales).

The effect on Distressed Properties of lender moratoriums on Foreclosures and Justice Department probes into foreclosures in portfolios of mortgage backed securities is an unknown at this juncture.



## AVERAGE DAYS ON MARKET

Average days on market declined by two days to 104 in October, reversing an upward trend from May through September. Since longer Days on Market is a byproduct of a market in over supply, the shortening of the Days on Market in October is a small glimmer of positive news.



## COMMENTARY

Bright spots in STAT this month are few: a rise in the Average Sales and List Prices, a slowing of new listings onto the market and a decrease in the Days on Market. Unfortunately, the decline in Sales, the rise in Total Inventory and the accompanying increase in Months Supply of Inventory herald further downward pressure on pricing.

Nationally, in its October 25<sup>th</sup> press release\*, the National Association of REALTORS® reported rising sales signaling that the sales recovery has begun. Unlike the national report, Valley Sales continued to decline. We can though, still boast great affordability of housing which, along with desirable mortgage rates, are key factors for recovery. The national average commitment rate for 30 year, conventional, fixed rate mortgages fell to a record low of 4.35% in September from 4.43% in August, significantly lower than the rate of 5.06% in September 2009. \*\*

Still affordability and record low interest rates, while enticing, do little to affect recovery if there is only a limited supply of Buyers. Before significant gains can be made to the market recovery, the number of viable Buyers in the marketplace needs a drastic increase. Three metrics to watch are unemployment, job creation and net migration. Significant reduction in the number of unemployed would boost the homebuyer pool as more households could move into position to purchase. Likewise, the creation of new jobs would put more of the unemployed population back to work and eligible to obtain financing. Net migration into the market would similarly signal a pool of new Buyers.

The Arizona Department of Commerce and the University of Arizona's Economic and Business Research Center\*\*\* report of unemployment figures for October have not yet been posted for Arizona or the Phoenix Metro area at the time of this writing. Unemployment for the state at the end of September was 9.67%, the lowest figure since June. The highest on record since 1990 was 10.02% set in July 2010. The September percentage represents 310,000 unemployed out of the total 3,205,900 civilian labor force.

The Phoenix Metro area, defined by the Arizona Department of Commerce to include Maricopa and Pinal counties, has an unemployment rate of 8.9% for September, .77% below the state figure. Valley unemployment, which hovered between 9.01 and 9.11% in June, July and August, is making small movement in the right direction.

\* [http://realtor.org/press\\_room/news\\_releases/2010/10/sept\\_strong](http://realtor.org/press_room/news_releases/2010/10/sept_strong)

\*\* <http://freddiemac.com/pmms/pmms30.htm>

\*\*\* EBR Database Online

Total nonfarm employment for Phoenix in September saw an increase of 11,000 jobs. Four of the major private sector industries reported over-the-month gains including construction (600), financial activities (1,400), professional and business services (2,500) and educational and health services (300) while natural resources and mining remained flat. These are small steps in the right direction.

Immigration into the Phoenix Metro area reached an all time high in 2005 and 2006 at 129,050 and 127,497, fueling the market frenzies in those peak years. In 2009, net migration in the Phoenix market was 89,100. From January through September 2010, net migration was 71,798. This is an average of 7,955 per month which, if extrapolated through December, could account for a 2010 net migration of 95,463. The net migration pattern seen over the last two years in Phoenix is likewise mirrored for the state of Arizona. Again here is another key metric moving in a positive direction.

Casting about in MLS data for signs of a market bottom and subsequent recovery has proved elusive over 2009 and 2010. The “one step forward two steps back” phenomenon has become all too familiar in our fragile recovery. However, the underlying drivers of a recovery are progressing steadily, yet not fast enough for an industry grown weary of bad news and hungry for normalcy.

The Valley market has been flopping around the bottom for some time. No doubt at some point, the cumulative effect of the three key metrics reported herein, which are all moving in the right direction, will positively influence the Valley real estate market. The big question is WHEN, and the universal hope is SOON.