

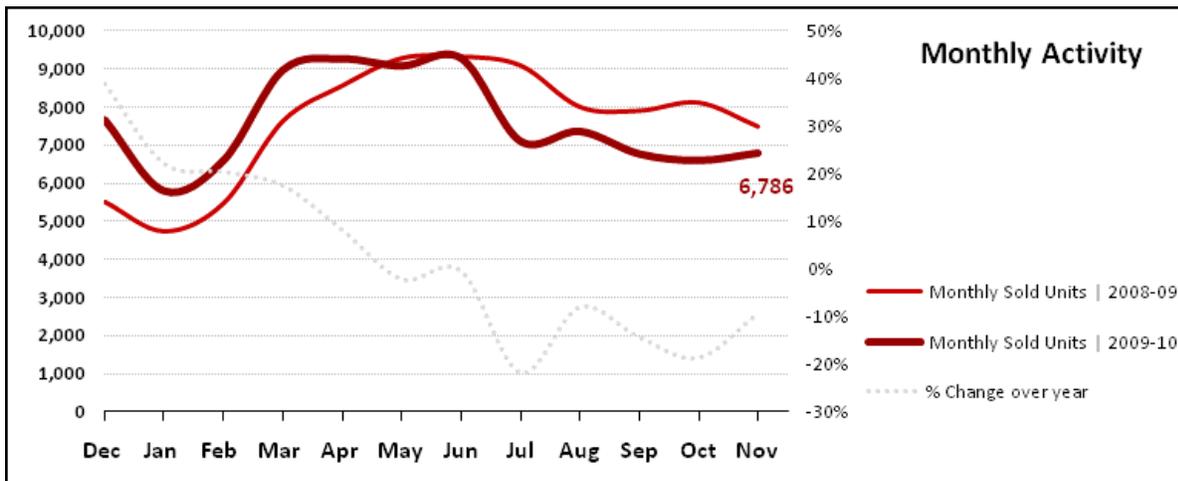


SALES Month over Month

Sales in November took a 2.9% upward tick to 6,786 total sales, 193 more sales than October. This reverses the recent downward trend seen in September and October. The overall upward sales trend line from January through April, which flattened May to June, took a decidedly downward tilt from July through October. As we comb the current month's numbers, the increase this November can be seen as a glimmer of positive news.

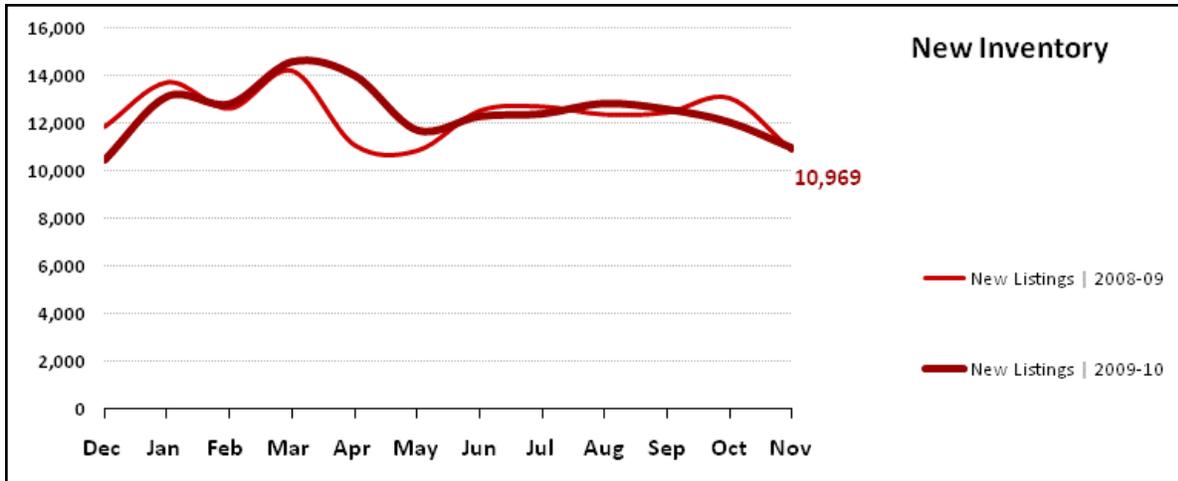
SALES Year over Year

The November sales figure is 9.4% below the same figure in 2009. The 6,786 total sales for November surpasses the 5,180 November sales average for 2001-2009. Total sales from October to November fell every November since 2001, with the exception of November 2010.



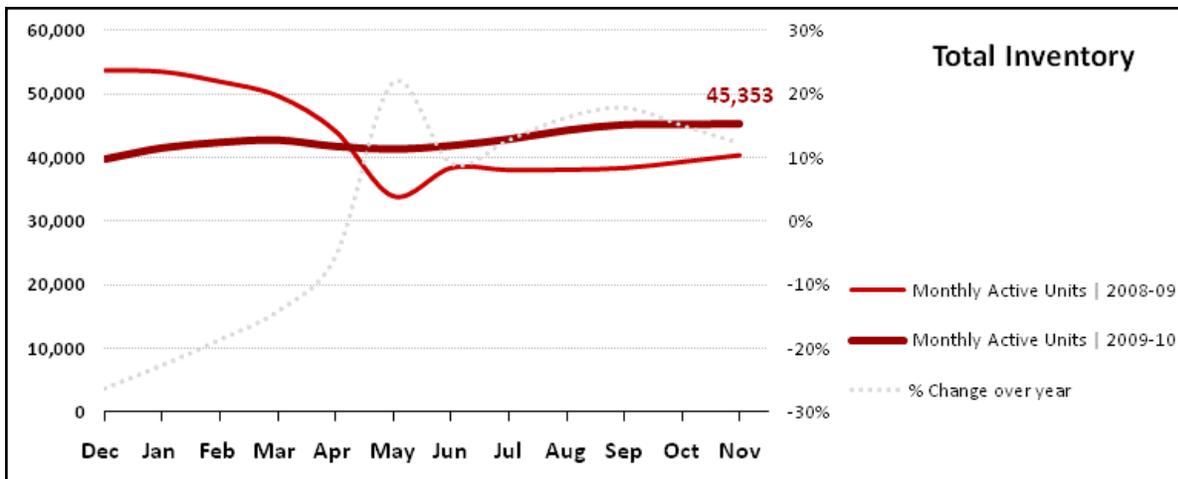
NEW INVENTORY

New Listings declined 9% from October to 10,969. November's new listings is 1,474 below the previous five month average of new listings of 12,443. Every year over the last decade, new listings declined on average 6.8% from October to November. New inventory added each month affects the total supply of inventory and influences the supply and demand balance so critical to our recovery. Thus the decline in new listings in November is positive.



TOTAL INVENTORY

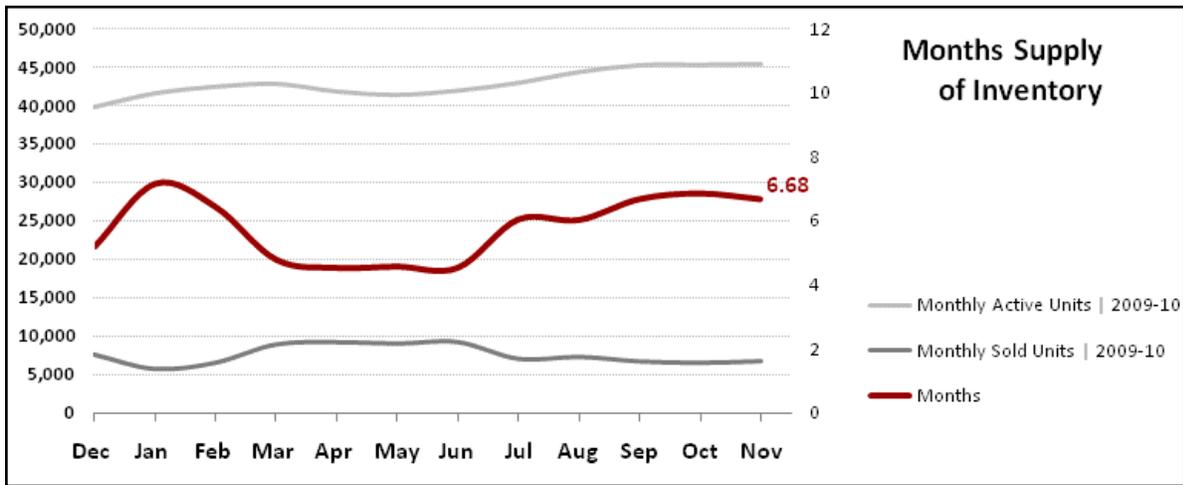
Currently there are 45,353 total residential listings, representing only a .2% increase over October. Total inventory has been on a gradual but steady upward trend since June. Between June and October the increases in total inventory each month averaged 1.82%. November's increase of only 101 listings is good news.



MONTHS SUPPLY OF INVENTORY (MSI)

For the first time since August the MSI declined, which is a positive sign, albeit a tiny one. November's MSI is currently at 6.68 months, down slightly from October's 6.86 months. The MSI between June and July tipped the supply and demand balance from a seller's market to a buyer's market. A seller's market is defined as months supply of inventory in the 4-5 month or lower range. A buyer's market is typically defined as having an MSI of 6 or more months. The Valley has hosted a buyer's market for the last five months with no significant signs of change in oversupply of homes.

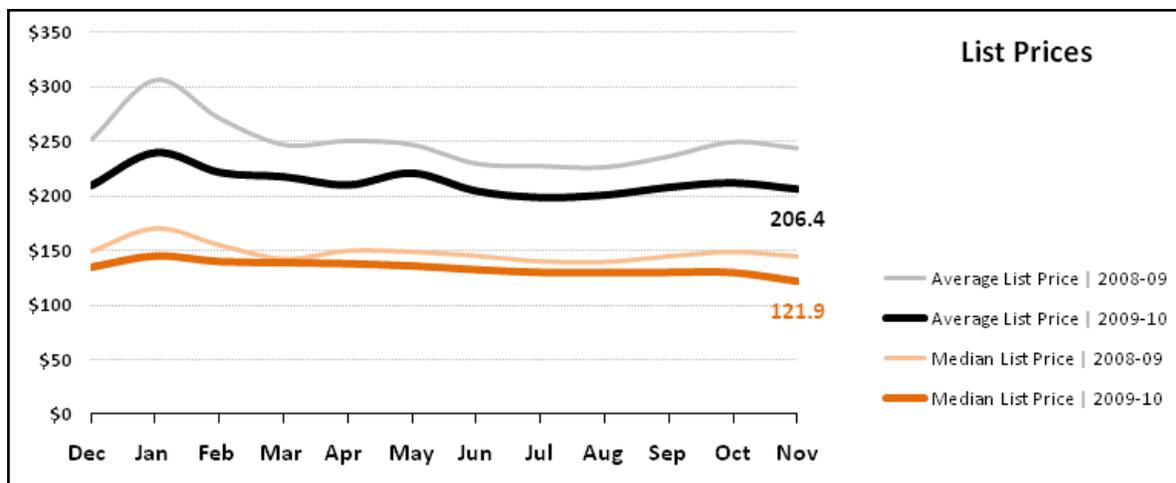
A Valleywide MSI is valuable only as a barometer of overall market health. Smaller niches within the broad market vary widely in their MSI. Only in the context of a specific niche can an MSI have relevance for individual sellers.



LIST PRICES

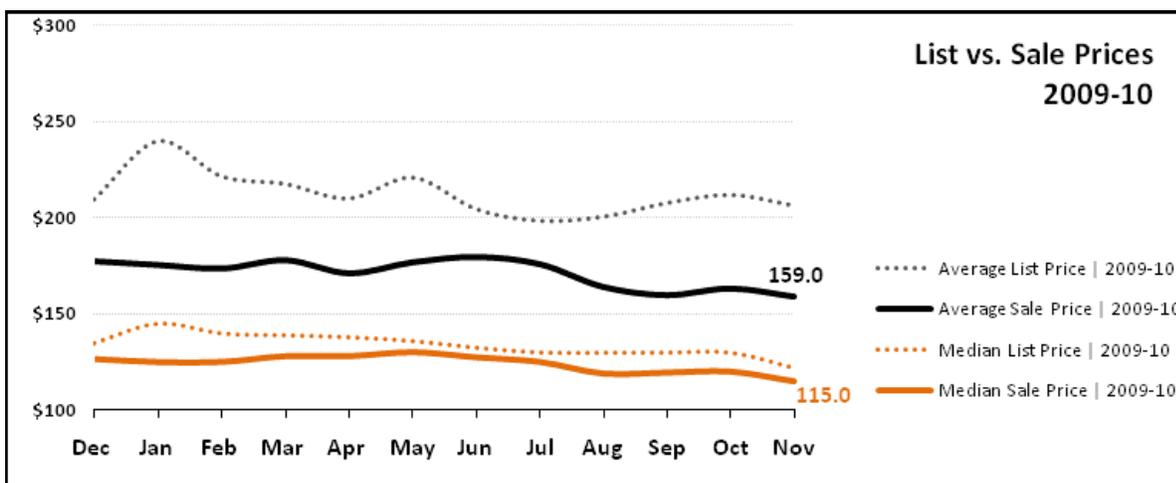
Median new list price dropped \$8,000, or 6.2%, to \$121,900 in November. The median list price has followed a steady downward trend since February, losing \$18,000 between February and November. The \$8,000 decline in median list price from October to November is by far the largest month over month drop all year, well above the average month over month drop of \$1,510, and 64% greater than the next highest month over month decline which occurred from January to February.

The average list price fell \$5,600, or 2.6%, to \$206,400 in November, reversing the positive monthly gains of August, September and October. The average price though has remained true to a downward trend line, which followed a see saw up and down pattern January through March, and saw some positive gains late summer. Since January, the average list price has fallen \$33,200. Joining the months of July (\$198,700), August (\$200,763) and June (\$204,581), November's average new list price is among the four lowest since 2001. Factors driving these declines could be seller realism about pricing, and/or the downward pressure caused by a growing percentage of distressed listings in the total new listing mix. Market reality is that the effect of distressed properties on key market indicators is negative, pervasive and not to be ignored.



SALES PRICES

The trend lines for median and average sales prices are also downward, but not as dramatically as median and average listing prices. The median sales price for November fell \$5,000, or 4.2%, to \$115,000. Since January when the median sales price was \$124,900, the median has fallen \$9,900. The average sales price also followed a see saw pattern over 2010, falling from \$175,700 in January to \$159,000 in November, representing a \$16,700 drop. Followed closely by the September 2010 (\$159,824), April 2009 (\$159,681) and March, 2009 (\$159,080), the November average sales price is the lowest of the decade.



THE ARMLS PENDING PRICE INDEX™

The ARMLS Pending Price Index is a predictive tool unique to ARMLS, based on the pending sales data in the MLS system. It predicts the average and median sales prices ninety days into the future. The PPI's forecast value diminishes the further into the future it goes.

The predicted median sales price for December should remain steady at \$115,000, rise in January 2011 to \$118,000 and fall dramatically in February to \$100,000. The February's prediction is the least reliable at this point because it is based on lower number of closings scheduled ninety days into the future.

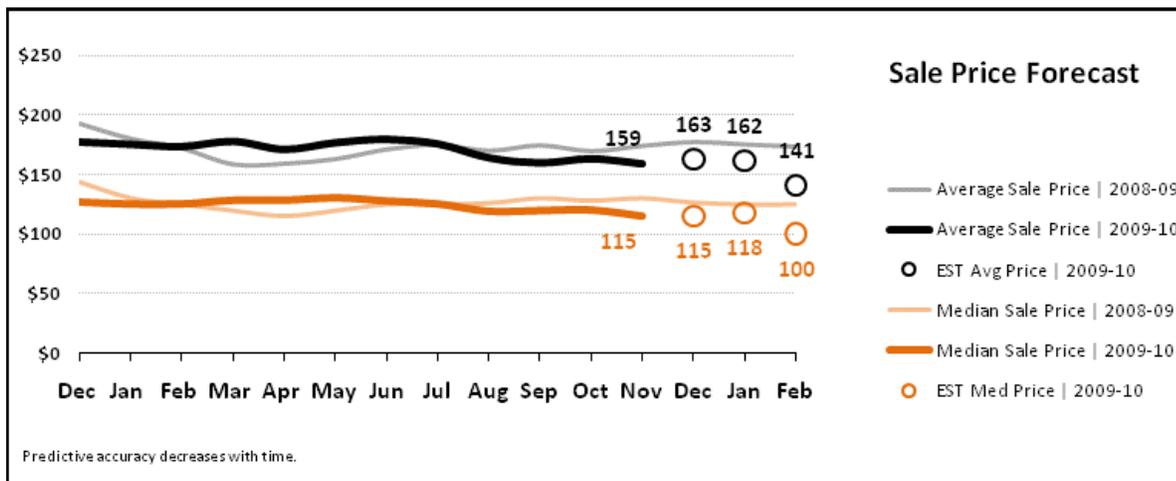
The forecasted median figures parallel, but fall short of, the predicted figures from the November STAT: last month's December prediction was \$117,000, this month's December prediction is \$115,000. Last month's January prediction was \$120,000; this month's prediction is \$118,000. February's forecast represents a larger drop from the prediction of an unhealthy \$105,000 last month to a predicted \$100,000 in this month's STAT.

The average sales price is expected to rise in December to \$162,800, drop slightly in January to \$161,500 and take a precipitous \$20,400 drop (12.5%) in February to \$141,100. If the predictions hold true for February, it will be the lowest average sales price since 2001.

Speculation about the cause of the steep drop in February should consider buyer and seller motivations. Sales made in November and December will close most likely in January and February. Traditionally, normal Sellers, those not in distress, will not elect to place their homes on the market during the holiday period, without a compelling reason to sell, e.g., a relocation. This behavior may be keeping normal listings, and hence normal sales, out of the prediction equation.

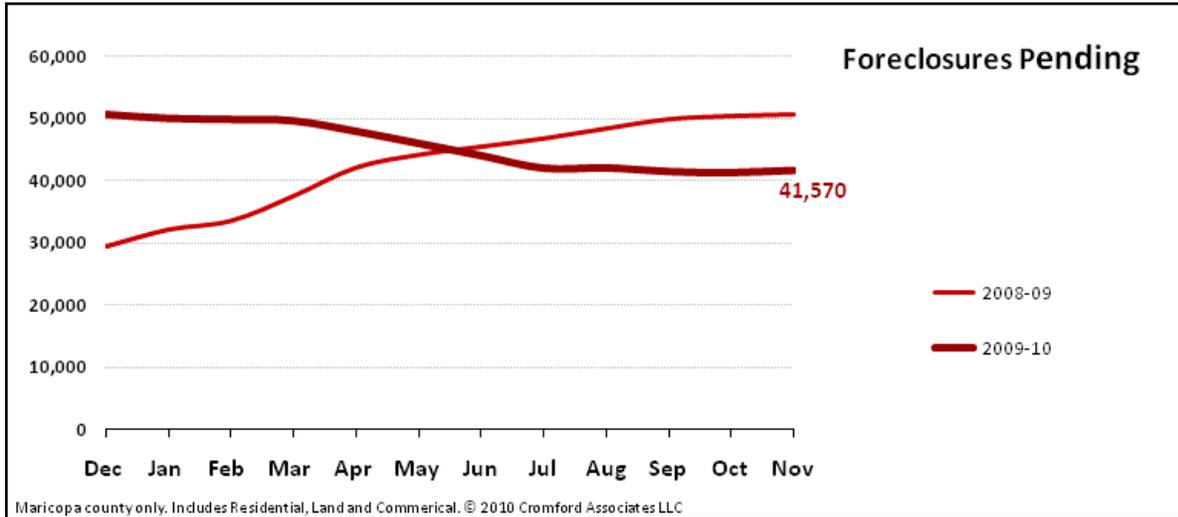
The December PPI predictions should be influenced more heavily by the pool of investors, who unlike traditional buyers, would not be motivated to remain out of the market until after the holidays. Lender owners as well have no such reservations about the holiday. Many distressed properties, which tend to have a prolonged close of escrow period, may have already been under contract before the seasonal slowing. We may see those contracts dropping in number moving forward, but not see the effects on pricing until a few months into 2011.

The ARMLS PPI debuted in March 2010 and has no empirical data surrounding predictions which straddle the close of one year and the beginning of the next. If the February forecast is unduly influenced by the fallout from the holiday season, then logically we could predict that the decline in February would right itself in March and April closings. Since January and February sales would be free of natural reluctance to mar holiday family time and festivities, we would expect that a more normal mix of transactions would account for March and April closings.



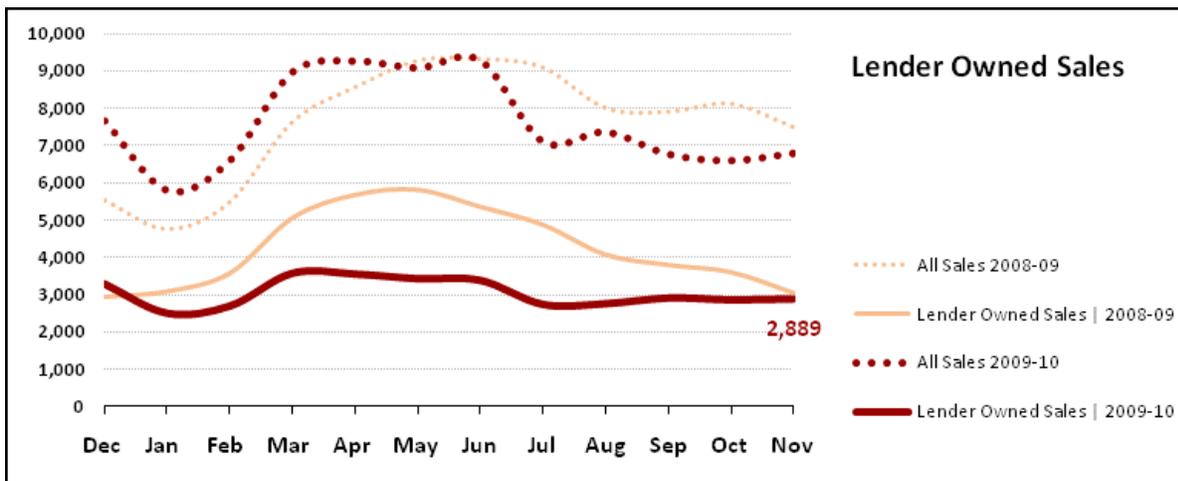
FORECLOSURES PENDING

Foreclosures pending, which increased slightly by 367 to 41,570, have held relatively steady since July, averaging 41, 603 per month, after following a gentle downward trend between November 2009 and June 2010.



LENDER OWNED SALES

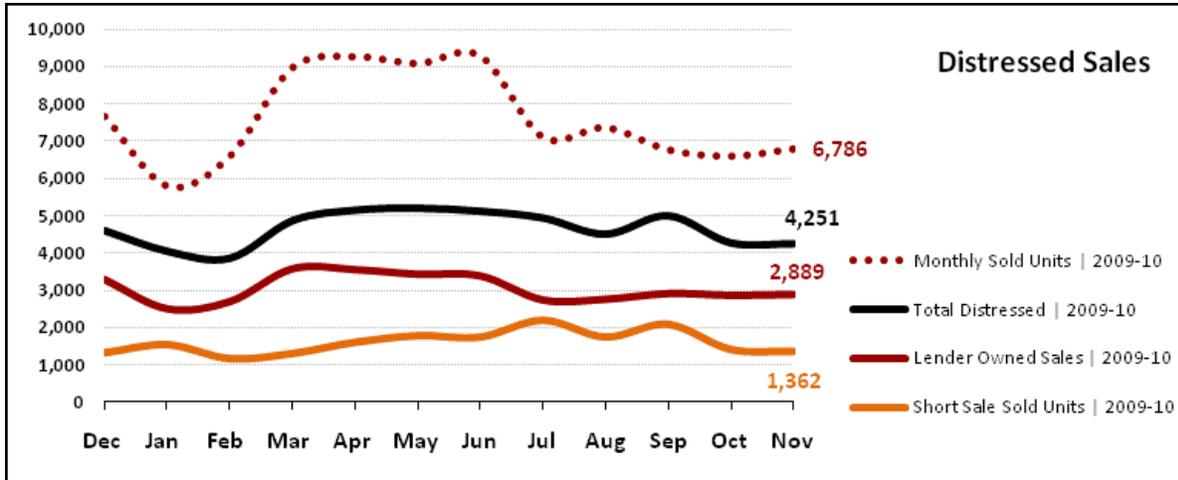
Lender Owned Sales for November was 2,889, only 26 sales greater than October. The average number of lender owned sales has remained steady since July, averaging 2,832 per month. The November lender owner sales figure represents 42.6% of the total sales .



DISTRESSED SALES

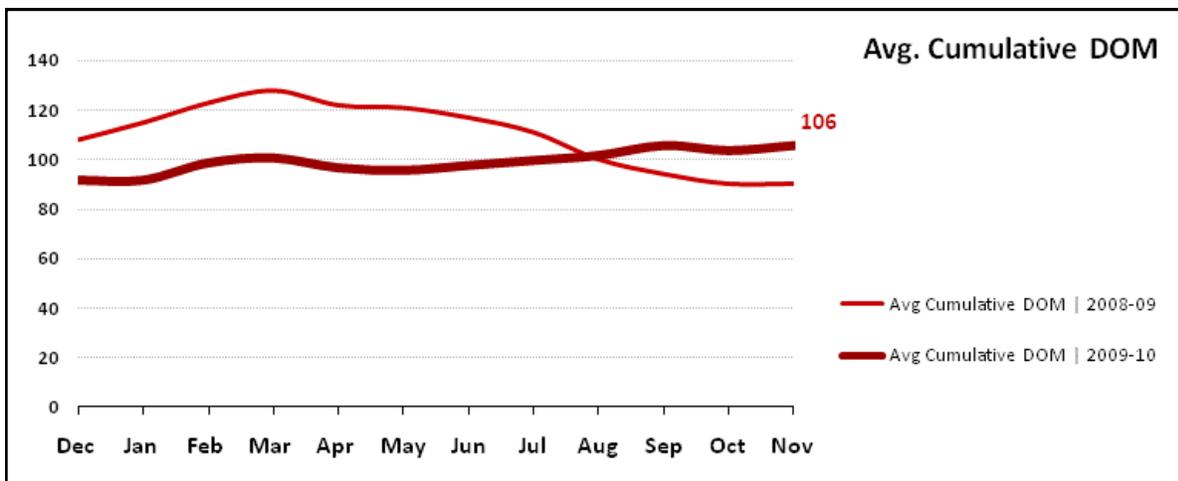
Distressed Sales are defined as closed Short Sales plus Lender Owned Sales. After peaking in September at 74.1%, the percent of total sales settled back in October to 64.8% and November to 62.6%. These figures are high and exert downward pricing pressures on median and average prices. Yet, the 2.2% drop from October to November, and the 11.5% drop from the high in September, represent a metric moving in the right direction as traditional sales gain back some ground.

Total Distressed Sales of 4,251 for November represent the lowest number since March. In November there were 1,362 short sales (a 3.5% decline from October), representing 20.1% of total sales, compared to lender owned sales which accounted for 42.6% of total sales.



AVERAGE DAYS ON MARKET

Average days on market (based on properties which close during the month) which dropped two days in October, added the two days back in November with an average days on market of 106. Days on market in January (92), increased to 99 in February and has been on an overall upward trend all year. The oversupply of inventory influences the average days on market. This metric is intended in this context to be a barometer of overall market health. Small market niches have their own average days on market which is a more accurate predictor of market behavior in that niche.



COMMENTARY

As forecasted last month for Q4, November STAT reports very little overall change over October. The market continues to behave as a caught mackerel flopping around the bottom of a boat, trying desperately to flop out. The positive rays of recovery this month are few and small: the 2.9% increase in sales accompanied by the 9% reduction in new inventory, a tiny dip in the Months Supply of Inventory and a 2.2% drop in Distressed Sales as a percentage of total inventory.

Most disconcerting are the drops in actual median and average prices for listings and sales. These declines are evidence of downward pressures on pricing exerted by distressed sales, oversupply of inventory, high unemployment, almost no net migration into the Valley and a buyer-unfriendly lending climate. Many buyers, reluctant to purchase, are waiting for the bottom. The predicted fall in the median and average sales prices in February brings to mind the old Chubby Checker lyric from his 1962 hit, Limbo Rock*: "How low can they go?" The most notable positive outcome of pricing seemingly in free fall is that Valley housing affordability becomes more attractive. Pricing, like Chubby Checker's Limbo stick, will come to a point at which it can go no lower. Once that happens and the market makes a decidedly upward turn, free of its current fits and starts, we will be poised for an unbridled recovery.

Nationally, the National Association of Realtors Pending Home Sales Index** rose 10.4% to 89.3 based on contracts signed in October. While this is a positive rally, it remains 20.5% below a surge in October 2009. The Valley however is not experiencing the uptick reported nationally.

Net migration and jobs are the forces that will ultimately drive our recovery. Net migration for the Phoenix Metropolitan Area, which includes Maricopa and Pinal Counties, has not been posted for October or November. However, the latest unemployment figures*** for Phoenix Metropolitan Area herald for the third month in a row a decline in unemployment, from 9.11% in August to 8.48% in October. What the recovery needs most are qualified, employed buyers moving into the market ready to take advantage of the plethora of affordable housing available.

* <http://www.youtube.com/watch?v=9jkowBtwnHM>

** http://www.realtor.org/press_room/news_releases/2010/12/strong_phs

*** EBR Database Online