



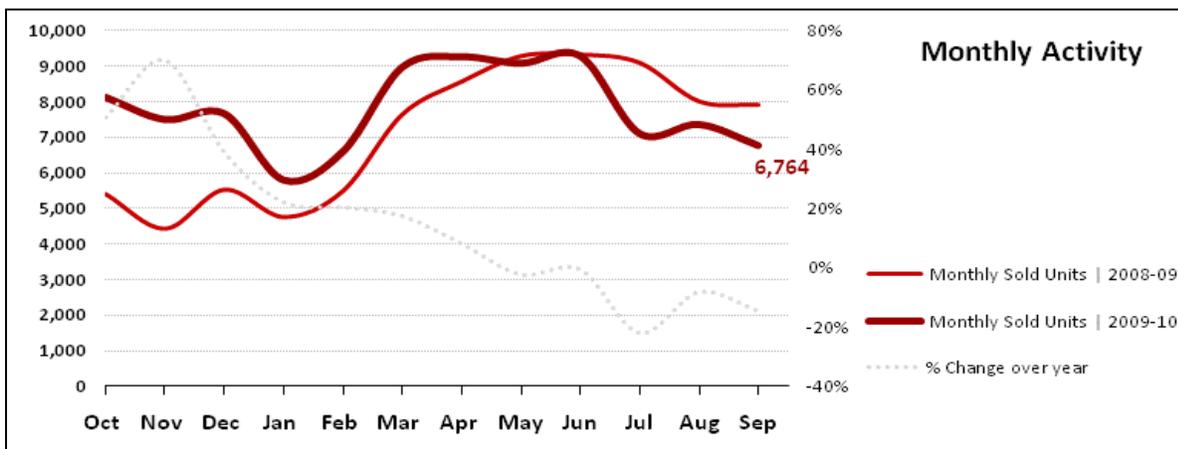
October 14, 2010

SALES Month over Month

The sales increase seen in August was reversed in September with 6,764 listings sold, compared to 7,358 sold units the month before. This represents an 8.1% decline in sales and the lowest sold units since February. With the exception of the teaser increase in sales in August, the overall trend since June is downward. The 27% overall decline from June (9,280 sales) to September (6,764 sales), reverses the stable sales levels enjoyed from March to June, but is still the second highest September sales total in the past five years.

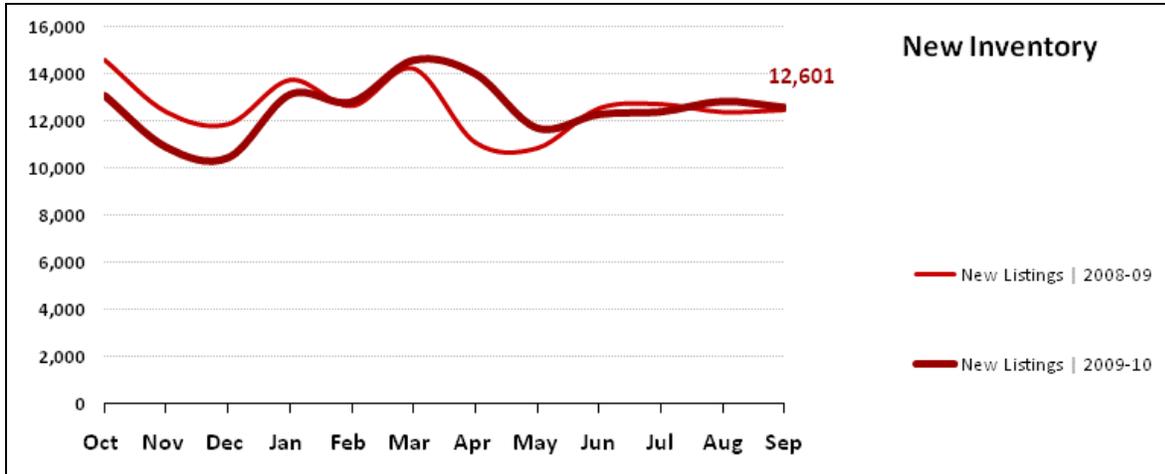
SALES Year over Year

With the September sales at 6,764, the market experienced an 8% decline over September 2009. Historically, sales declined from August to September in nine out of the last ten years, with one exception, August to September in 2008 which showed a 7% gain in total sales. In the other nine years the sales decline ranged from 1.26% in 2009 to 21% in 2007. In this context, the 8% decline in September of 2010 is typical of seasonal declines over the last decade.



NEW INVENTORY

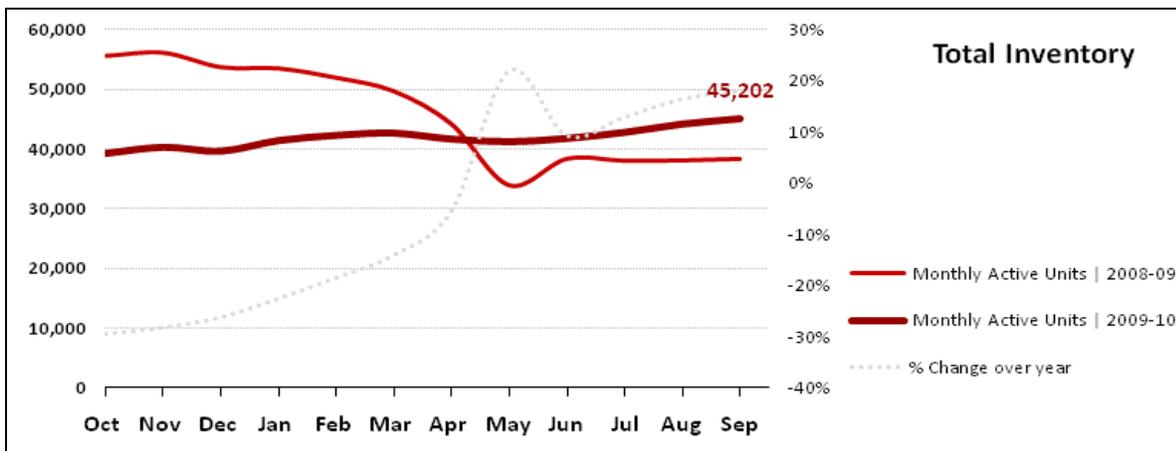
The trend of new inventory to the market since June has held steady with an average of 12,540 new listings per month. September's 12,601 new listing figure represented only a .48% deviation from the recent four month average. In Q4 2010, ARMLS expects the new inventory figures to hold steady or rise slightly in October, and drop in November and December, mimicking the pattern of previous years. Seven out of the last nine years saw new inventory rise in October, and every year since 2001 experienced an inventory drop in November and again in December.



TOTAL INVENTORY

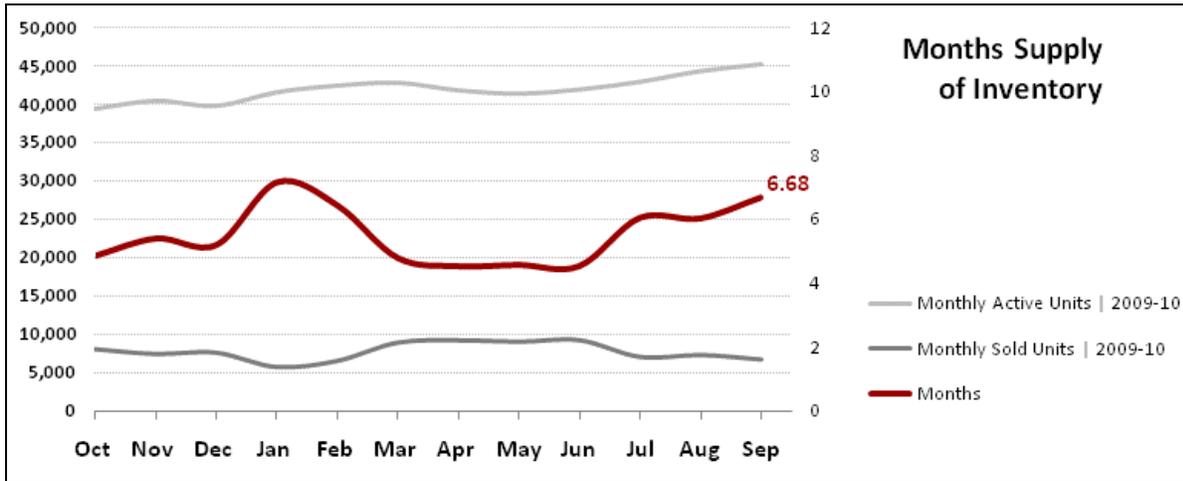
Total inventory has continued on a gradual upward climb. In September the total inventory figure increased by 895 listings, or 2% over the August. The September total inventory of 45,202 listings represents a 17.9% increase over the same figure in 2009.

Total inventory is naturally affected by new listings and closed sales. Increases in listings in the Active With Contingency status (AWC) affect the total inventory since ARMLS allows short sales in negotiation to remain active in MLS under AWC status. We will be studying Short Sales in AWC status and their effect on Total Inventory in the coming months.



MONTHS SUPPLY OF INVENTORY (MSI)

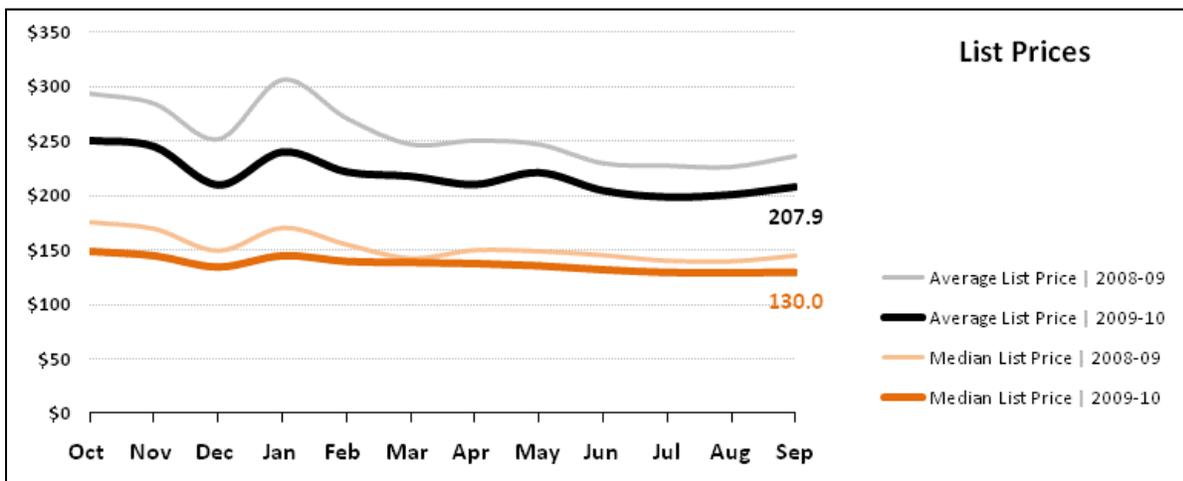
Not surprisingly, as monthly sales decline and the influx of new listings has held steady in the 12,300 - 12,850 range, the Months Supply of Inventory which had been in the 4.5-4.7 months range (a Seller's market) from March through June, has increased steadily from June to September to 6.68 months supply (a Buyer's market). While this does not accurately depict the conditions in smaller market niches, it is an overall market barometer of supply and demand. Unfortunately, the oversupply of listings associated with a Buyer's market will have negative downward pressure on pricing.



LIST PRICES

Median List Price which has been on a downward trend since February, finally pulled out of the nose dive to realize a nominal increase in September, rising a meager .1% to \$130,000 from \$129,900 in August. More discouraging is the decline of 10.3% in the Median List Price over September 2009 figure of \$145,000.

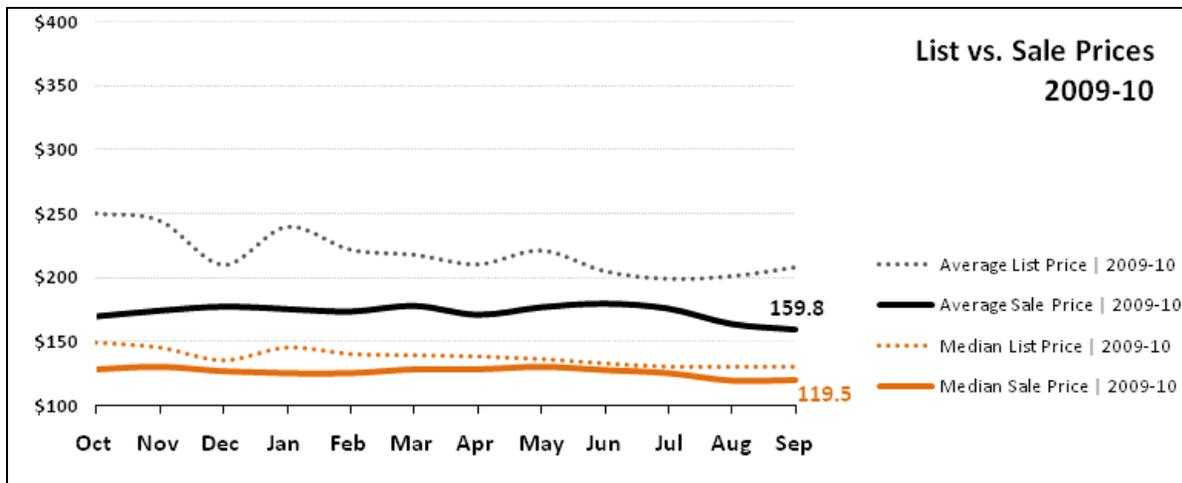
Average List Price, which remained flat through July and August, with the lowest averages in the last ten years (\$198,700 and \$200,800 respectively), took a refreshing 3.5% upward turn in September to \$207,900. This indicates that more higher-end homes were added to the average price calculation, offering one of the few positive glimmers in the October STAT report.



SALES PRICES

Median Sales Price in September (\$119,500) remained relatively unchanged from August (\$119,000) following the same pattern of Median List Price. Average Sales Price declined from \$164,100 in August to \$159,800 in September, diverging from the behavior of the Average List Price which rose from August to September. The Average Sales Price for September fell below the last month's predicted average Sales Price of \$164,000. The increase in shorts sale closings adds additional unpredictability to the ARMLS PPI™ as lender mandates and variable owner distress becomes a greater component in the final sales price of distressed properties.

September marks only the third month in the past ten years where the monthly Average Sale price dropped below \$160,000 (March and April '09 were the other two months). The ARMLS PPI™ predicts this should be a short-lived event, but it bears watching very closely since late-reporting contracts can affect the PPI significantly.



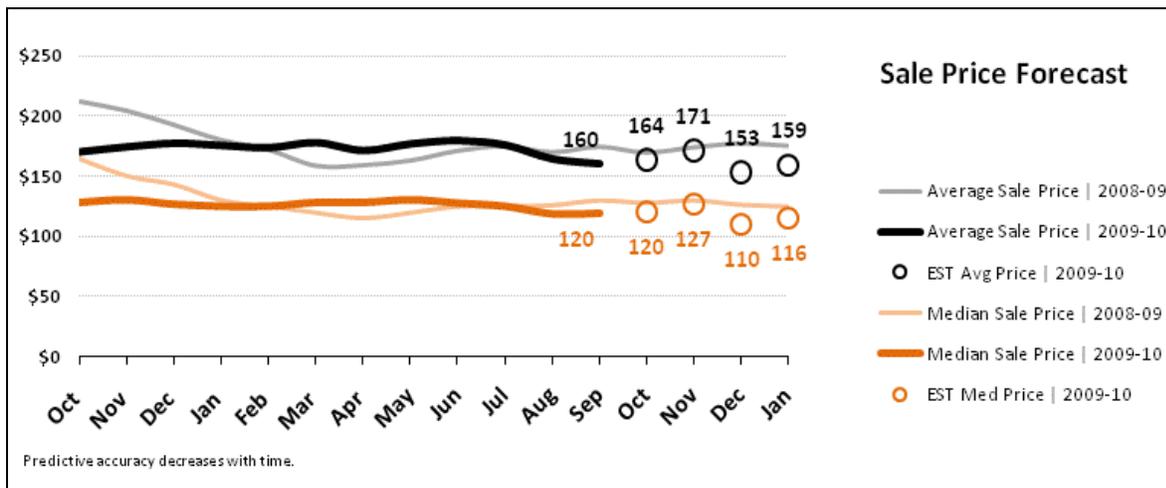
THE ARMLS PENDING PRICE INDEX™

The ARMLS Pending Price Index™ is a predictive tool unique to ARMLS which forecasts Average Sales Price and Median Sales Price, based on the pending sales figures in the MLS system. It uses the numbers in the system and is subject to fluctuation as the numbers change. It is not a guarantee of final actual figures. The predictive value of the numbers declines as the index moves further out into the future. As with all forecasts, its value lies in its glimpse into the future to assist Subscribers in molding expectations and planning reactions to those expectations.

The Median Sales Price in October is expected to increase only slightly from September (\$119,500) to \$120,000. November Median Sales Price is predicted to increase to \$127,000, only to fall in December to \$110,000, and then rally to \$115,000 in January.

The Average Sales Price for October is predicted to rise to \$163,800 from September's \$159,800. November is also predicted to increase to \$171,400 only to fall significantly in December to \$153,300, and then rally in January to \$159,100.

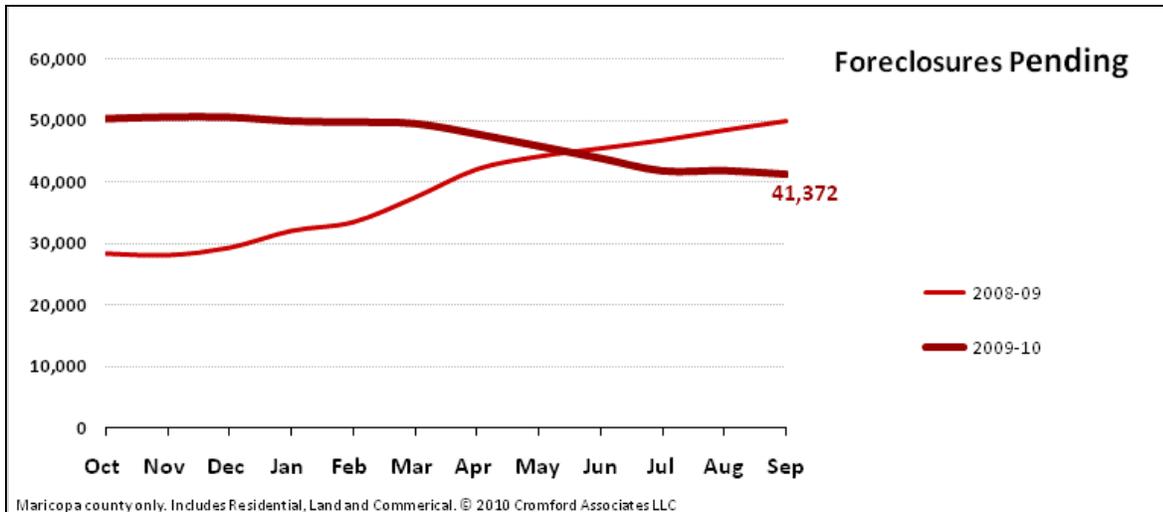
The National Association of REALTORS® Pending Sales Index* rose 4.3% in August, but remains 20.1% below the August of 2009. Short bursts of optimism experienced in the earlier part of the year seem distant as the recovery of the Valley market appears to be in a backward stepping mode. Indications are that forward steps will remain elusive until 2011.



*http://www.realtor.org/press_room/news_releases/2010/10/pending_show

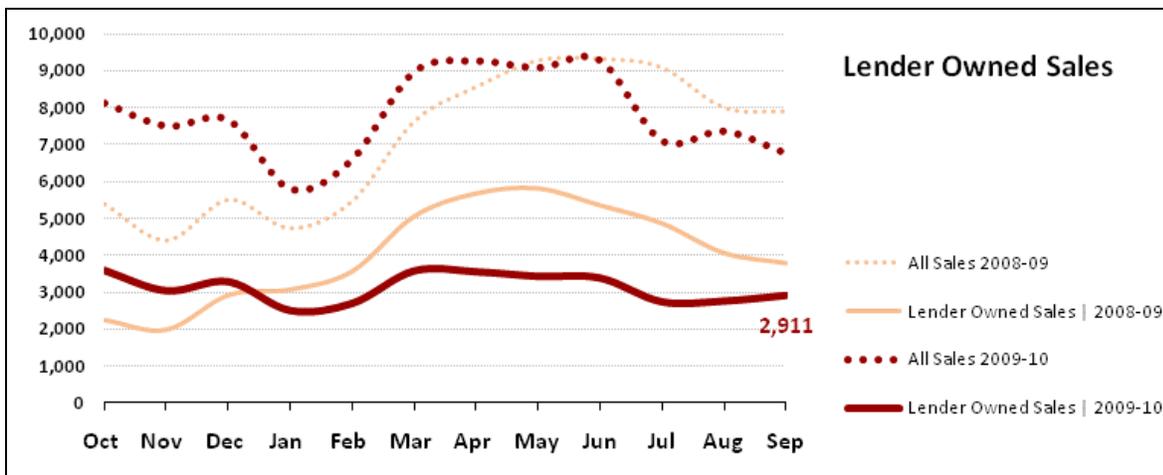
FORECLOSURES PENDING

The number of foreclosures pending which has been trending downward from November 2009 through July 2010, appears to have leveled off and stabilized during the third quarter. September's 41,372 foreclosures pending is only 1.4% below the last three month average of 42,605, and 18% below November of 2009's all time high. As the effectiveness of the financial sector's efforts to avert foreclosures increases, we may expect this figure to remain stable and eventually decline as more distressed Sellers look for and receive short sales relief from their lien holders. The effects of the moratorium on foreclosures imposed by many of the national banks have yet to be seen, but look for the foreclosure numbers to be in a great state of flux for the next few months.



LENDER OWNED SALES

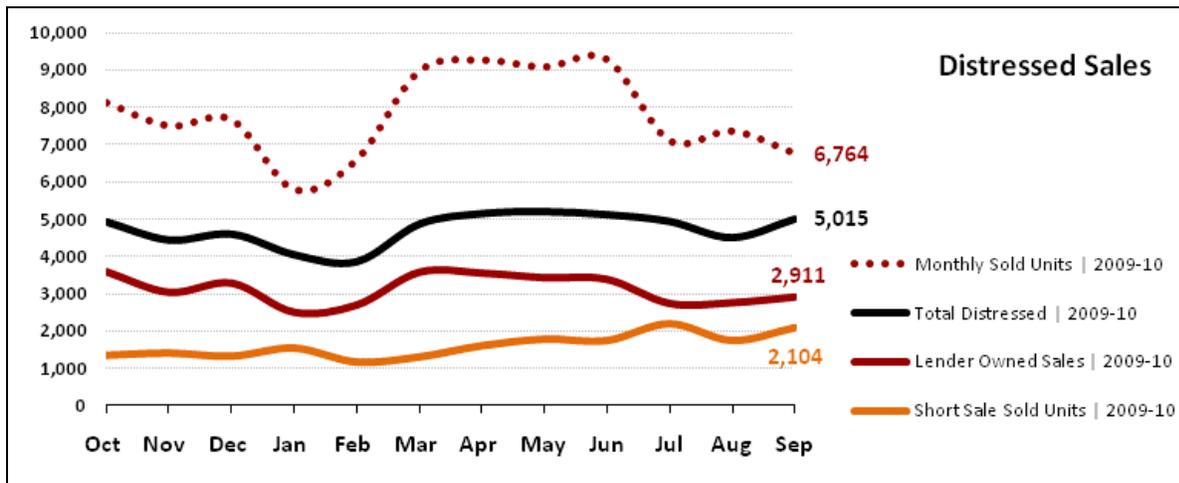
Sales of lender owned homes had maintained a relatively level trend line between March and June with an average number of Lender Owned Sales of 3,488 per month. Despite a decline in July and August (about 2,750 each), which paralleled the local and national decline of overall sales, September REO Sales ticked upward to 2,911 still below the average number of lender owned sales this past spring.



DISTRESSED SALES

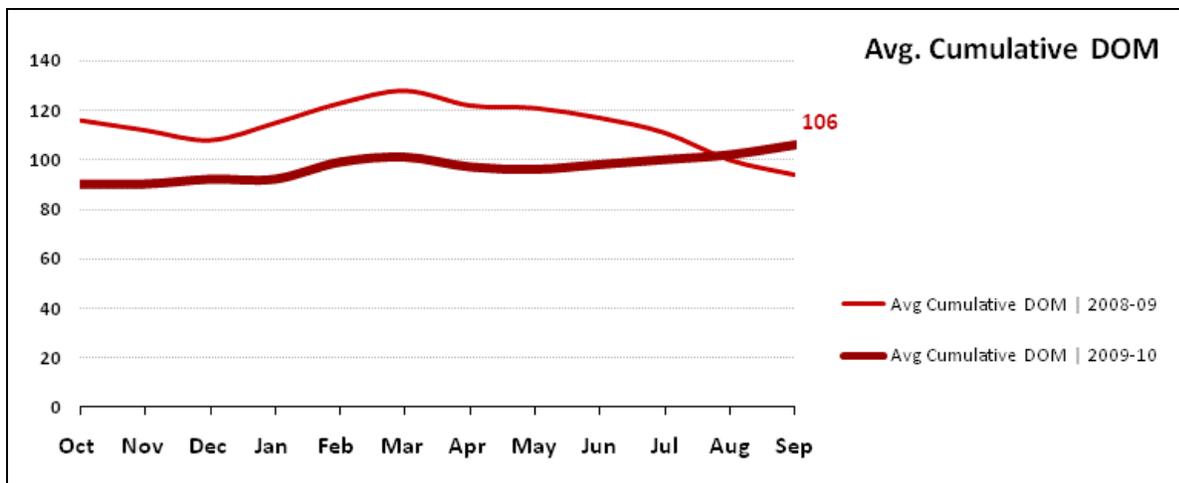
This month ARMLS adds a new metric to STAT by examining the makeup of distressed sales. Distressed sales are either foreclosures or short sales. The trend line of total distressed properties sales (lender owned sales + short sales) has remained steady from March through September, hovering right around 5,000 per month despite a slight dip in August. This year, the market experienced an 81.6% jump in closed short sales from February (1,158) to September (2,104). The decline in lender owned sales followed suit a month later: in March, there were 3,581 REO sales and in September there were 2,911 lender owned sales, representing an 18.7% decline.

There appears to be an inverse relationship between lender owned sales and short sales, but the total of the two has remained fairly steady since early this year. Lender owned sales decline as more homeowners are averting foreclosures and are able to take advantage of a lender assisted short sales.



AVERAGE DAYS ON MARKET

The Average Days on Market (DOM) has been on a gradual steady increase since May (96 days) to 106 in September, representing a ten day increase. Increased DOM inflates the Months Supply of Inventory and reinforces the shift from an overall Seller's market to a Buyer's market.



COMMENTARY

The recovery of the Valley real estate market appears stalled at least temporarily. Reports of sale declines, indicating that we are still bumping at the market's bottom, naturally are not welcome news. However, the picture emerging out of the distressed sales and increases in the number of properties in AWC status may be harbingers of better things to come. The flow of foreclosures into the market appears to be staunch, perhaps heralding future declining foreclosure numbers. The rise in consummated short sales, along with increases in listings in AWC status, are indications that lenders have recognized there is value in working through a short sale rather than accepting the higher losses associated with foreclosure. Late news about foreclosure moratoriums while banks (and regulators) investigate irregularities in document preparation will affect the numbers next month, but how is anyone's guess.

The FNMA Housing Affordability Foreclosure Alternative program (HAFA) is designed to support the short sale work out and increase the efficiency with which homeowners in distress can consummate their short sales. While there are many distressed loans that do not fall into the HAFA program, all lenders especially those with large portfolios, will be watching the success of the HAFA program and will likely emulate its success in their programs.

The ultimate path to recovery both in Arizona and nationally will come from job growth which will fuel spending and homes sales, and entice relocations into the state. Small gains surface but the pace is painfully slow. There has also been growth in the US GDP but it is still too slow to significantly change the unemployment rate. The Eller College of Management at the University of Arizona in their recent Midyear Forecast Update*, noted that Arizona unemployment, which rose from 5% in December 2007 to 10% in 2009, has receded to 9.9% in April and 9.7% in May. This is the worst long term unemployment since the 1930s. We have a long way to go but we are pointed in the right direction.

The affordability of housing in the Valley is the positive outcome of the declining sales prices and remains the silver lining for those who, once jobs recover, will look to purchase real estate. The Average Sales Price of \$159,824 in September (with the exception of \$159,080 and \$159,681 in March and April of 2009, respectively) is the lowest Average Sales Price of the decade. By anyone's standards, such prices offer a huge bang for the buck and will prove to be huge enticement once employment recovers.

*<http://ebr.eller.arizona.edu>