ARIZONA REGIONAL MULTIPLE LISTING SERVICE, INC.

STAT

your monthly statistics
for the Phoenix Metro area

August 16, 2010

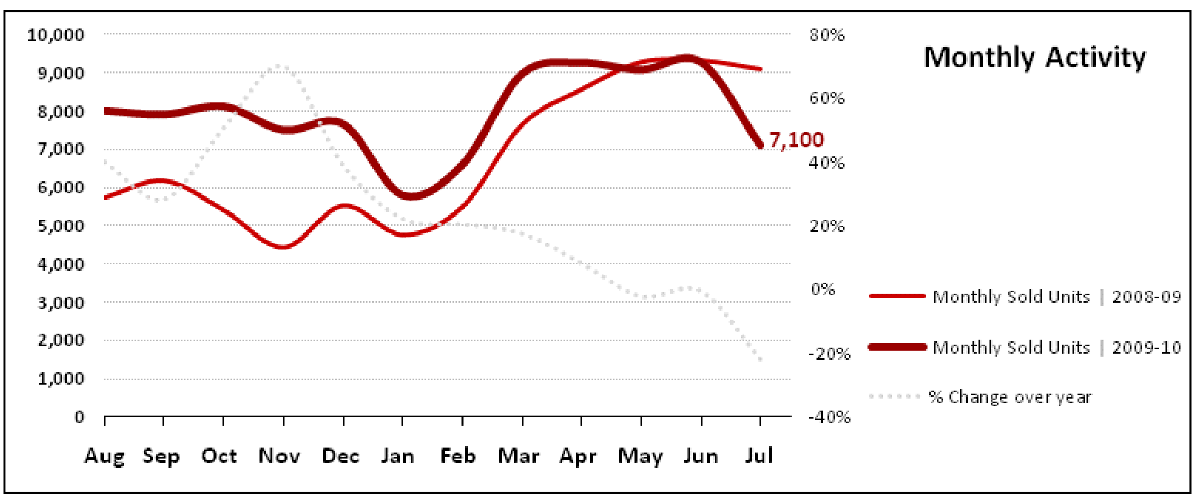
There are many indicators to discuss this month and they all point in different directions. The Phoenix metro market continues to show mixed emotions about embracing a recovery.

SALES Month over Month

July single family sales dropped off a cliff to 7,100 units, down over 2,000 units from June, and negating the steady, albeit somewhat erratic, totals we saw in the previous three months. After a strong run up in February and March, and steady numbers in April through June, the precipitous fall in July adds credence to the fear of many economists – that the first time buyer and move-up tax credits merely accelerated the purchase decision for many homebuyers who would have bought anyway.

SALES Year over Year

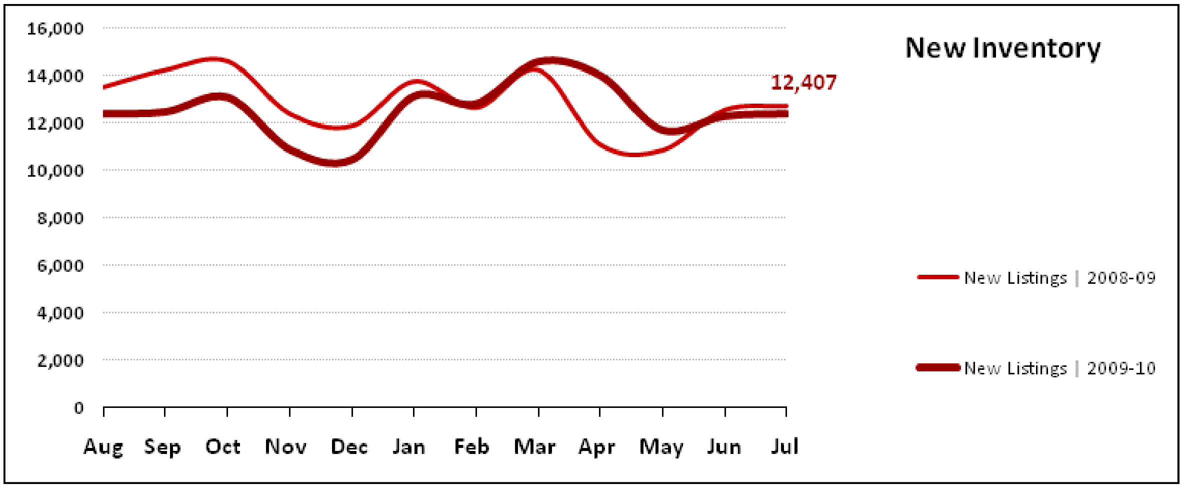
2009 was a banner year in terms of number of homes sold, the third highest on record. 2010 is showing signs of exceeding that figure. Despite NAR's most recent data (June)[1] that indicated a 5.1% decline in existing home sales on a seasonally-adjusted annual basis, the pattern here was just the opposite until July when this market fell 22% over the year before. This third consecutive month of declines reverses the 23 month trend of year over year sales unit increases dating back to June 2008. If the previous five-year average sales per month holds for the remainder of the year, **STAT** projects that nearly 87,000 homes will be sold in 2010, a 7% decline from the 2009 total of 93,300.



[1] NAR June Sales Report - http://www.realtor.org/press_room/news_releases/2010/07/ehs_june_above

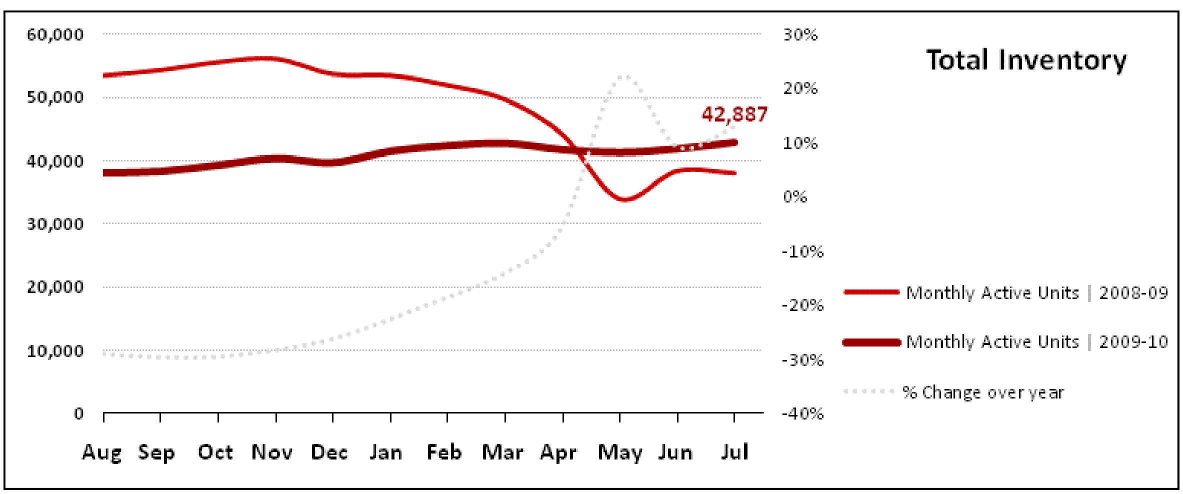
NEW INVENTORY

July showed little change over June (only 100 more net listings), continuing the normal seasonal pattern as fewer sellers show their willingness to test the market during the summer selling season. Overall the new residential inventory for July remains close to the average of 12,556 new listings per month that has continued over the last 12 months. But July's total is also the lowest for any July since 2004. REO and Short Sale properties continue to be the lion's share of the new listings. In July, 61% of new listings were in one of these distressed categories.



TOTAL INVENTORY[2]

Total residential inventory for July (42,887 units) rose only slightly from the preceding month (41,869). Inventory has remained fairly flat for the past eight months, varying no more than 4% in any month from the 41,300 average for that period.

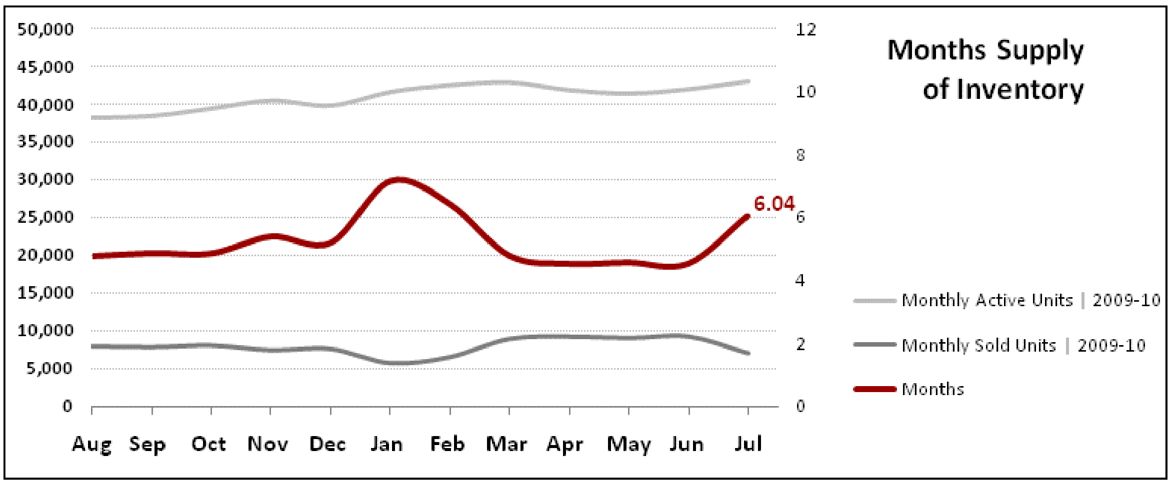


[2]Total active listings are pulled from flexmls on the 10th of every month.

MONTHS SUPPLY OF INVENTORY (MSI)

MSI is a macro level look at how long it would take to absorb the current active residential inventory. It divides the total residential active units by the number of sold units in a given month to estimate how many months supply of inventory (MSI) exists in the market as a whole. Over the four months from March to June, MSI stayed in the narrow range between 4.77 and 4.51 months. With the large drop in closed units in July, the MSI jumps to 6.04.

Convention holds that an MSI less than 5 months indicates a seller's market, while an MSI equal to 5-7 months is a balanced market, and an MSI exceeding 7 months equates to a buyer's market. This is a look at the residential MSI for the entire market and is not representative of smaller niches. Over time though, the MSI for the entire market can serve as a barometer of overall market health. Nationally, June NAR reports indicate an 8.9 month supply of inventory[3].



[3]NAR June Sales Report - http://www.realtor.org/press_room/news_releases/2010/07/ehs_june_above

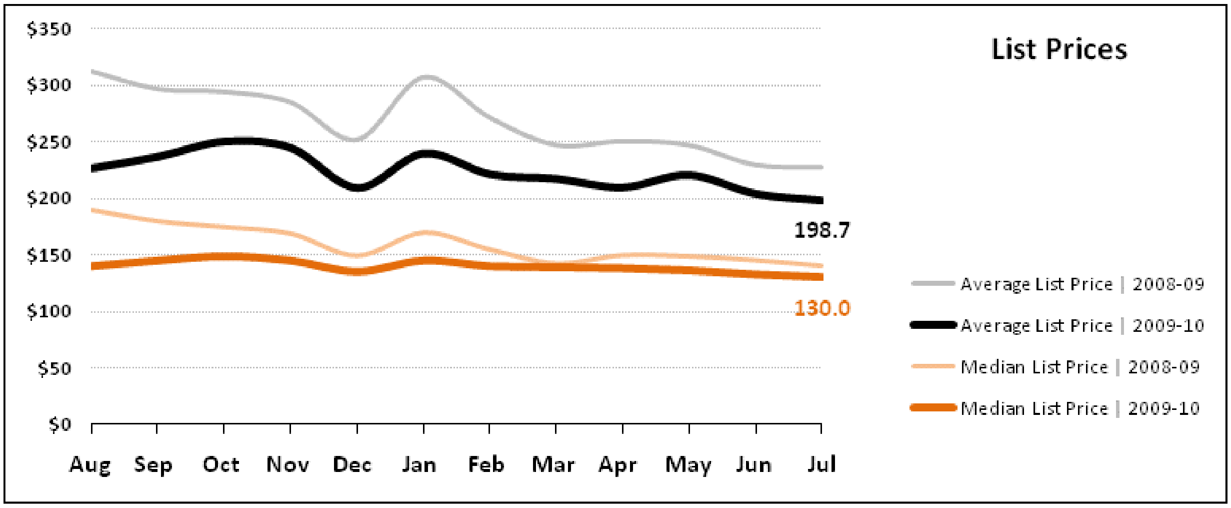
LIST PRICES

After a short burst of optimism in May when the average list price ($220.9K) rose by 5% over April, the average list price slipped in June and then set another new low record for the decade when July's average list dropped below $200,000 for the first time since Y2K.

Average list price peaked in January 2007 at $422,000, so July's average of $198,715 represents a plunge of 53% from the market peak.

Likewise, the median list price declined in July to $130,000 from June's $132,500 and set a record for lowest median list price since current reports have been tallied (January 2001), and an even bigger fall (57%) from the peak median in February 2006 of $303,900.

Both numbers indicate a fall in optimism of homeowners (be they individuals or banks) of what properties can expect to bring and mirroring a drop in consumer confidence being reported nationally.

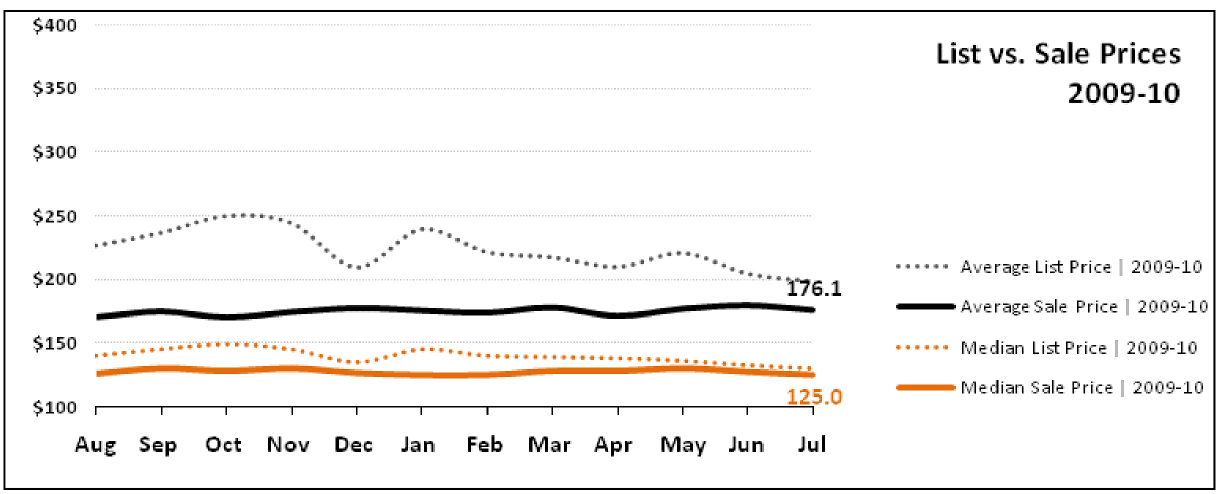


SALES PRICES

The ARMLS Pending Price Index™ last month pointed to downward turns in both Median and Average sales prices, and both predictions proved true.

July's median declined 1.9% from $127.4K to $125K while the Average sales price fell slightly more, 2.1% from $179.9K to $176.1K in July.

The Average and Median sales price declines put a little damper on the optimism that several months of small but steady increases fostered. And both numbers are almost exactly where they were one year ago, thus giving back the gains seen last fall and earlier this spring.



Whether this is an indicator of a longer term trend has yet to be seen. But the PPI™ is not optimistic, pointing to lower numbers in August through October before trying to turn the corner in November.

THE ARMLS PENDING PRICE INDEX™

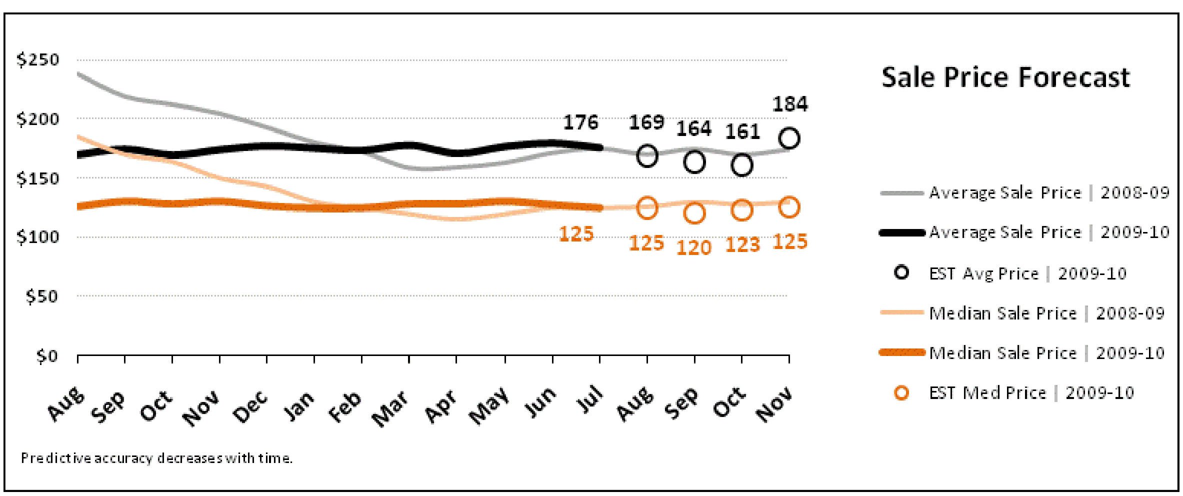
THE ARMLS Pending Price Index™ (PPI™) is a predictive market tool exclusive to ARMLS. The Index uses pending sales data from the Arizona Regional MLS system to predict Median sales price and Average sales price three to four months into the future. This information is only available through ARMLS, the sole aggregator of pending sales data.

Pending sales data predict that the Average price will drop over 4% in August to $168.7K and continue downward but at a slower rate in September (3.1%) and October (1.5%) then spike strongly upward, recovering 14% to $183.7K in November.

The accuracy of the ARMLS PPI™ diminishes the further into the future the prediction is made because the sample size diminishes with time. So the strong recovery in November should be tempered with caution because of a long lead time.

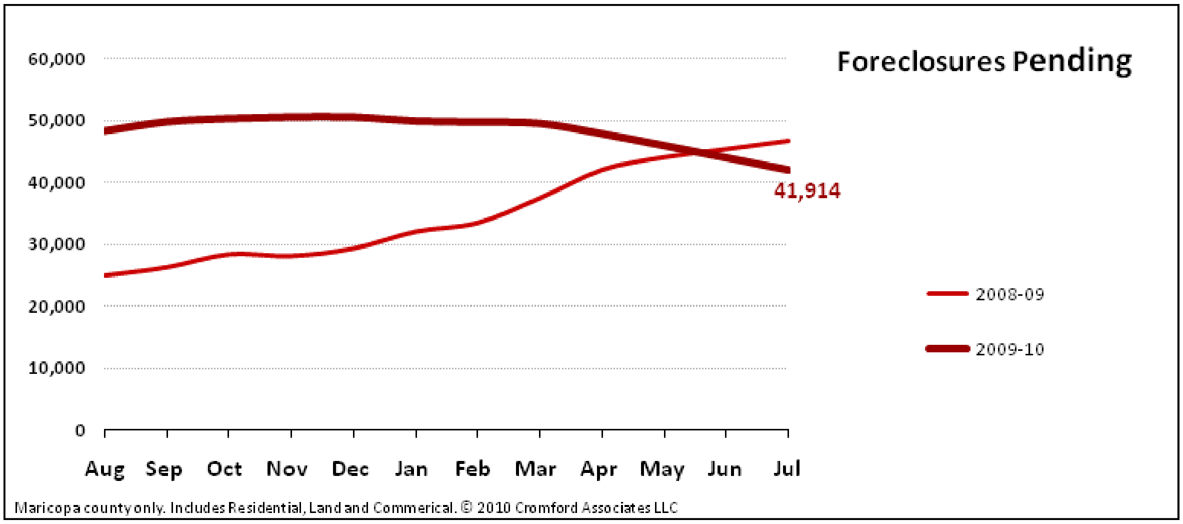
The Median sales price shows a counter trend, falling fractionally (only $100) in August and significantly (-3.9%) in September, then recovering strongly October (2.1%) and November (2.0%) to finish right where it started four months earlier.

Overall, the Median and Average sales prices have remained relatively flat over the previous 18 months with only small monthly fluctuations. The Median is exactly where it was in February 2009 and the Average is fractionally higher than it was that same month. The market appears to be in a fairly stable pattern although it is prone to slight dips indicating that the recovery is still tentative and subject to many outside economic factors.



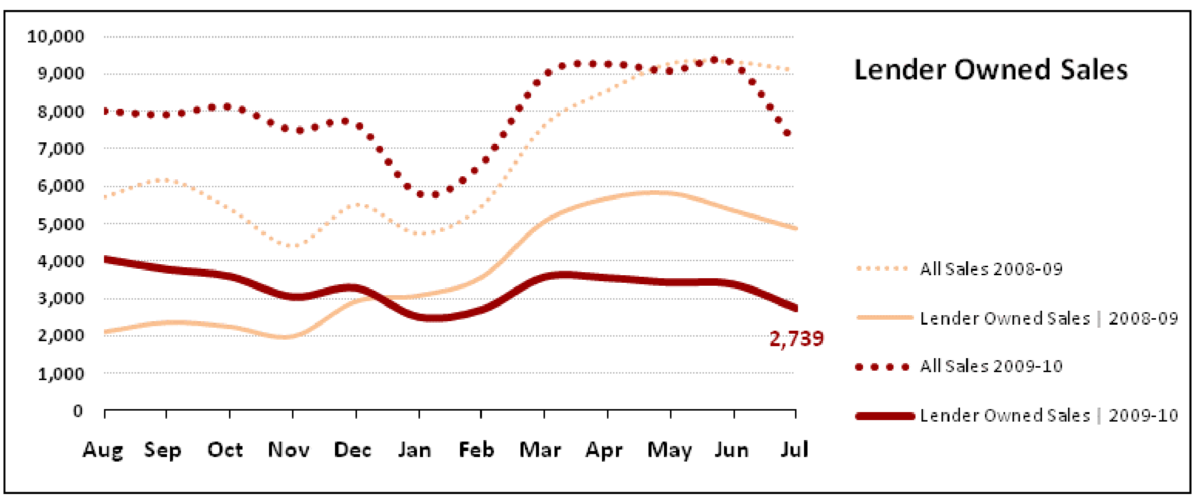
FORECLOSURES PENDING

Foreclosures pending in all property classes continue the downward trend of the last four months to 41,914 in July. It is unclear though if this pattern is reflective of greater lender success in expediting workouts with distressed owners to avert foreclosure, or is due to impaired lender capacity to initiate and process foreclosure inventory, due to inadequate resources. But when one takes into account the increased number of Short Sales closing, up from 14.1% in July 2009 to 24.7% this July, the pressure and incentives from Washington on banks to settle accounts short of foreclosure is clearly being felt.



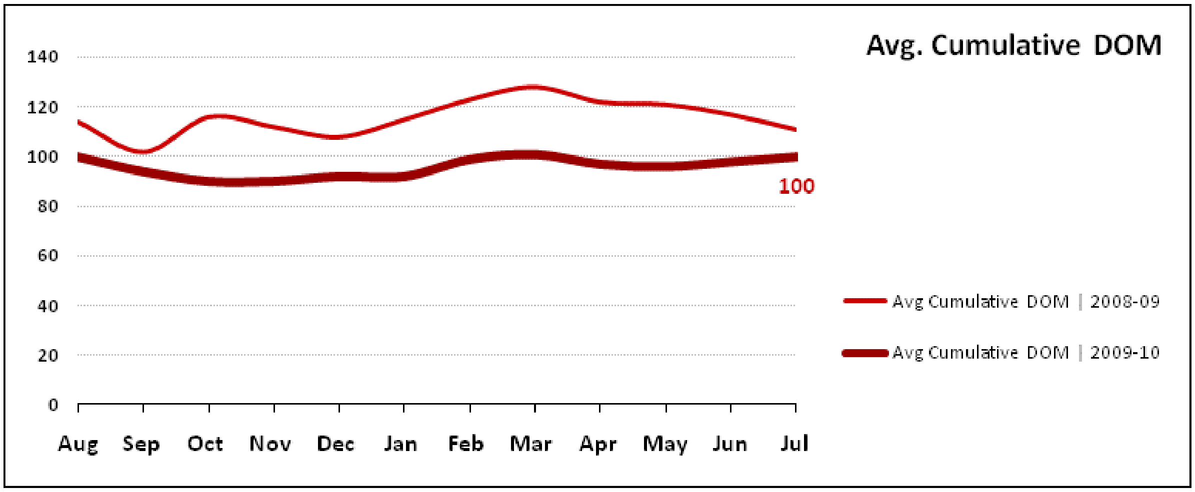
LENDER OWNED SALES

Lender owned sales have declined each month for the past 17 consecutive months when measured as a percentage of all residential sales. From January to April 2009 the percentage was 65-66%. This month it was only 38%, just over half of the figure a year ago. As the new FNMA and Freddie Mac Home Affordability Foreclosure Alternatives (HAFA) program is implemented, the market may expect to see the trend of lender owned sales as a percentage of total sales continue to decline. The impact of HAFA is yet to be realized but a positive impact could lead the way by example for other non-FNMA and Freddie Mac lenders to alter their policies regarding distressed homeowners.



AVERAGE DAYS ON MARKET

July showed another two day increase over June in the average days on the market to a nice round 100. The days on market figures have held relatively steady over the last twelve months, fluctuating slightly between 90 and 100 days and matching the same ADOM in August 2009. The prevailing pattern of average market times tracking proportionally to list price continues, as homes priced below $150,000 sell in less than 60 days while those over $750,000 are taking months rather than days, on average, to sell.



COMMENTARY

The prediction of a slow market recovery becomes more questionable this month than it has in the past few months. Where patterns seemed to be establishing over the last three months, now the market is showing more fluctuations and in some cases reversing its previous good trends.

STAT sees a clear relationship between the strong sales data over the last several months and the first time buyer tax credit which is no longer available. The credits seem to have caused a mini-bubble in the market, accelerated buying decisions that would have occurred in summer and fall, pushing them into this past spring. This push created a vacuum of buyers to fill the transaction pipeline. Consequently those that are left are able to buy at lower prices due to decreased demand and the numbers suffer as a result.

Many market observers remain optimistic that the effects of the new government program, HAFA, a last resort for many home owners facing foreclosure, will reduce the number of lender owned sales. HAFA aims to address many of the complaints surrounding Short Sale and deed in lieu of foreclosure transactions. Timing of solid market recovery is directly related to the removal of distressed properties, i.e., lender owned and Short Sales candidates, from the active residential inventory.

ARMLS staff provides this commentary on the market as fact-based analysis, not as opinion or editorial positioning. Your comments are welcome and opposing viewpoints on interpretation of the market trends identified in **STAT** are welcome. Send your comments to **Communication@ARMLS.com** .

