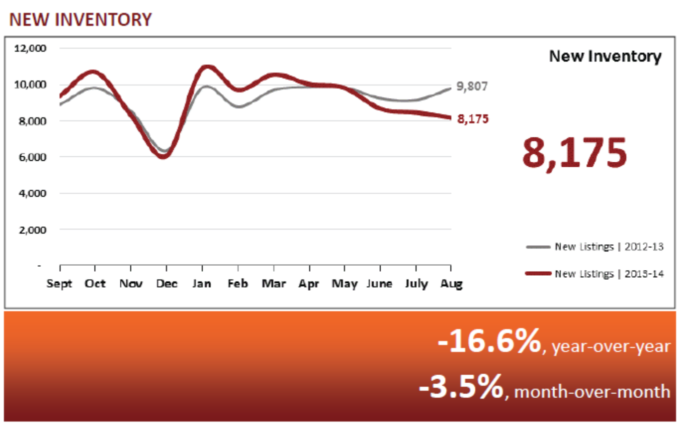
The Valley of the Sun Market Report — Price trumps location!

by Ron LaMee, AAR Senior VP of Research and Member Value

Welcome to our monthly review of the Valley of the Sun real estate market. As usual, this report is based on data you can easily get from ARMLS's STAT publication (http://www.armls.com/statistics/stat-library). I appreciate the questions I've been receiving from around the state. For those of you asking for a broader, statewide market report, it is in the works (see http://blog.aaronline.com/2014/09/expanded-coverage-for-market-reports-is-coming/).

In real estate we often hear "location, location, location," but price always trumps location. After all, for sellers it is the difference between the price they paid and the price they ask that determines their range of options. For buyers, price defines the range of locations and amenities they can afford. While price is critical, we're going to see that it's very difficult to get your hands around. We'll talk more about this after we discuss inventory and demand.

New Listings/Total Inventory

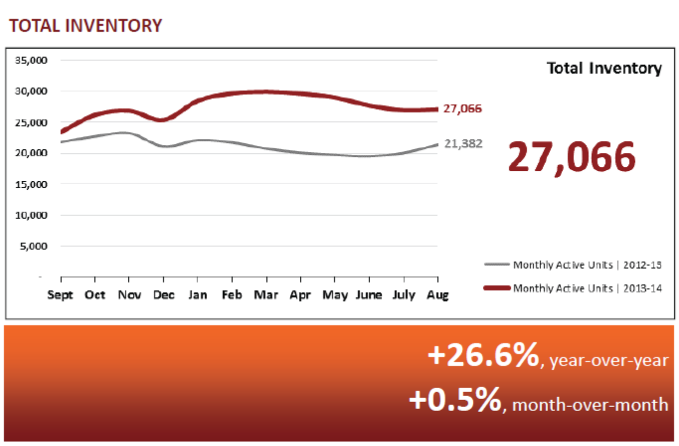


Last month I mentioned that the flow of New Listings being added into ARMLS inventory was below expectations, which could lead to shrinking inventory. In August, New Listings stats are down again: 3.5% lower than in July (note dark orange line in the graph at left).

Many REALTORS® know that it is common for the pace of new listings to peak in the first quarter, then slow down through the rest of the year.

Look at the 14-year pattern on the New Listings graph at the right. I removed the vertical axis scale so you can concentrate on the shape of annual trends: peaking early and dropping toward the end of the year.

Looking at the 2014 line, you can see "graphic" evidence of Tom Ruff's comment that for each of the last three months, new listings are the lowest in 14 years for those months.



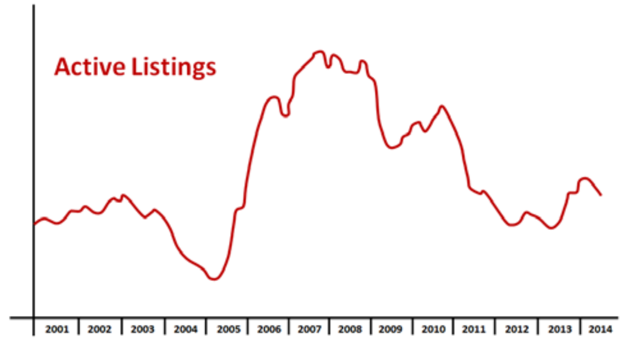
That leads to the next question: Has the drop in Total Inventory materialized? Check out the Total Inventory graph at the left. While New Listings are weak, Total Inventory edged upward. What gives?

Imagine ARMLS inventory like a bucket with water flowing in the top (New Listings) and flowing out through a spigot in the bottom (Monthly Sales).

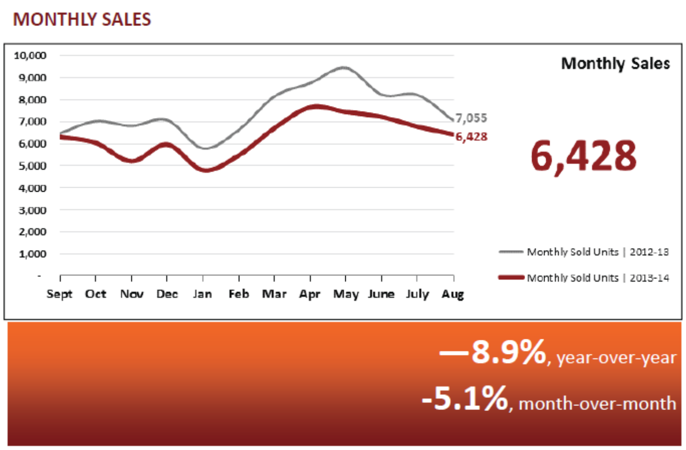
If you stop pouring water in the top and the level stays stable, then someone must have turned off the spigot—yes, Monthly Sales are down once more in August.

Before we leave the supply discussion, let's take a look at a graph which reflects ARMLS's Total Inventory picture over the last 14 years.

From a historical perspective, inventory isn't in bad shape. However, the situation with New Listings bears continued observation—at some point, lower inventory levels could create a stronger buyer's market.



Monthly Sales

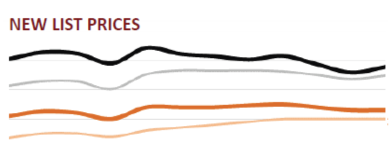


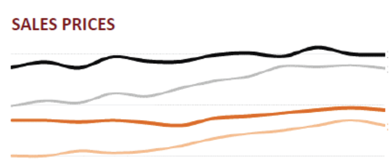
This month's stats show Monthly Sales decreasing over 5% from July to August. Our anticipated spring bump in sales was not much of a bump and it hasn't lasted. Comparing the 2013 line (gray) with the 2014 line (dark orange), you can see that last year's sales continued to ramp up into Q2 and stayed strong into Q3—not so this year.

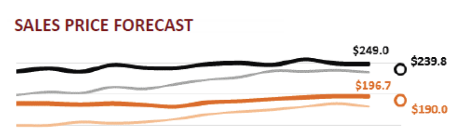
This means weak demand is still a concern. For more on this, I highly recommend that you read Tom Ruff's discussion of low demand and its causes at the end of this month's STAT Report (http://www.armls.com/docs/stat-ppi-2014/stat-september-2014.pdf).

Sales Prices/New List Prices/Sales Price Forecast

In short, prices are flat. Here are STAT's three August pricing graphs, shown side-by-side:







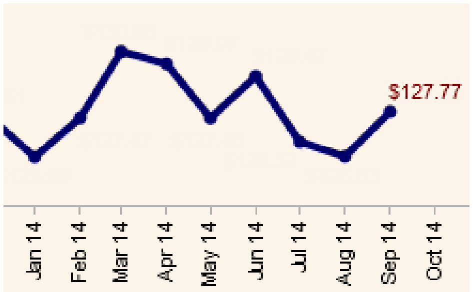
Sometimes, we look at sharp changes in graphs and decide to dig more deeply to explain the changes. Since prices have been flat for so long, I'd like to discuss why the graphs <u>aren't</u> changing. As I said earlier in this report, pricing is critical, but it's hard to nail down. Pulling comps sounds simple, but veteran agents spend a lot of time explaining to clients why <u>those</u> homes are so much higher or lower in price than the one under discussion.

From a high level viewpoint, average home prices don't tell us much about the market unless we look at them in context with supply and demand. If you've read Tom Ruff's demand discussion mentioned earlier, you'll know we are in the odd position of having weak new inventory (supply) and weak sales (demand). Balanced (though weak) supply and demand ought to lead to stable prices and that's just what we have. But there is more going on here.

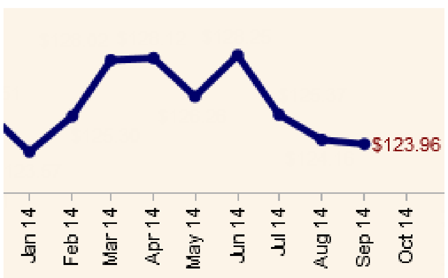
The ARMLS market area (encompassing Maricopa and Pinal counties) is huge and 80,000 sales can blur a lot of detail. As we go deeper and deeper into detail, we must leave our trusty STAT Report figures and look to the Cromford Report (http://www.cromfordreport.com) for its interactive graphs.

The Cromford Report chart I'll use for illustration is "Monthly Average Sales Price per Square Foot." This chart is a huge asset to agents wanting to isolate pricing data down to individual zip codes and price ranges; still, it too has problems when looking at the entire market. Both graphs below show Monthly Average Sales Price per Square Foot since January of this year.

Monthly Average Sales Price/Sq Ft
All price ranges



Monthly Average Sales Price/Sq Ft
Excluding price range > $3 million



Cromford Report, used with permission

This view is the default layout. If you were to depend on this chart, you'd probably conclude much the same as you would with STAT's pricing figures: prices are up and down, but mostly flat. It's difficult to tell where they are headed.

By the way, the price range on this graph (low to high points) is about $5.00/square foot—so we're apparently swinging back and forth around $127/square foot.

The next chart shows the same data as before, except for one small change: sales in excess of $3 million are excluded.

Not only has the average price per square foot dropped by nearly $4.00 in September, but we now see three months of decline. In fact, in examining a longer timeframe, those three consecutive decreases are the first three-month drop since late 2011.

Certainly, the *average* home buyer or seller is completely unconcerned with homes priced over $3 million, but look how eliminating that price range has changed the picture! The real payoff though, is to isolate the zip code areas under consideration and view price changes within particular price ranges. Expect to see very jagged graphs, as the smaller number of home sales filter through the criteria you provide.

These two graphs help explain why the pricing graphs in the STAT Report are flat: sales in the top price range are making average and median prices appear higher than they would be otherwise. It's the same mechanism that pushed ARMLS's average price per square down below $90/sq ft and kept it stuck there for three years from 2009-2011. Was that real? Sure, but it was an abnormal market dominated by sales of distressed homes priced under $150,000. By working the filters you can discover that during the same period, the very lowest average price per square foot for *luxury* homes was $242/sq ft—a long way from $90. Again, the market averages are <u>true</u> numbers, but not necessarily <u>useful</u> numbers.

The point of all this is that whether we're talking about the micro (neighborhood) level or the macro (market) area, the more specific you get, the more reliable your information is. We will continue to contemplate STAT Report's pricing data and make some sense of it; on the other hand, ARMLS users might consider buying a Cromford Report subscription for $35 a month and taking advantage of its ability to give you very specific information. To wrap this up, here are some thoughts you can pass along to your clients.

Talking with buyers

"Investors and cash buyers are no longer major factors in this market. The great bargains disappeared in 2012, but so has your toughest competition. We have significantly more inventory than back then and should be able to find you the right home at a good price."

"There is plenty of inventory available. There are more houses for sale now than last year, so we can find your dream house."

"We need to structure the offer just right. As a whole there's plenty of inventory, but average prices are fairly stable and sellers are confident—they may not look at lowball offers."

Talking with sellers

"There's plentiful inventory right now, but not a lot of new listings being added. The sooner we can get your property into the MLS, the stronger the position we'll be in."

"Demand is weak right now, but new inventory is dropping, too. The word on the street about the slight buyer's advantage could bring more buyers into the market. This is a good time to list when other sellers are staying out."

"Overall, prices have flattened, but in this area and price range, prices are [falling—show chart]. If you want to sell your property sooner, we'll need to be flexible in pricing or think about making some concessions."

"In some areas and price ranges, prices are starting to drop, but in this area and price range, prices are [stable or even rising a little—show chart]. I believe we can get some strong offers on this property, so let's see what happens for a few weeks before we look at other options."

I welcome your comments about this report—email me your thoughts and share your ideas about other topics to discuss. I'm Ron LaMee, ronlamee@aaronline.com.