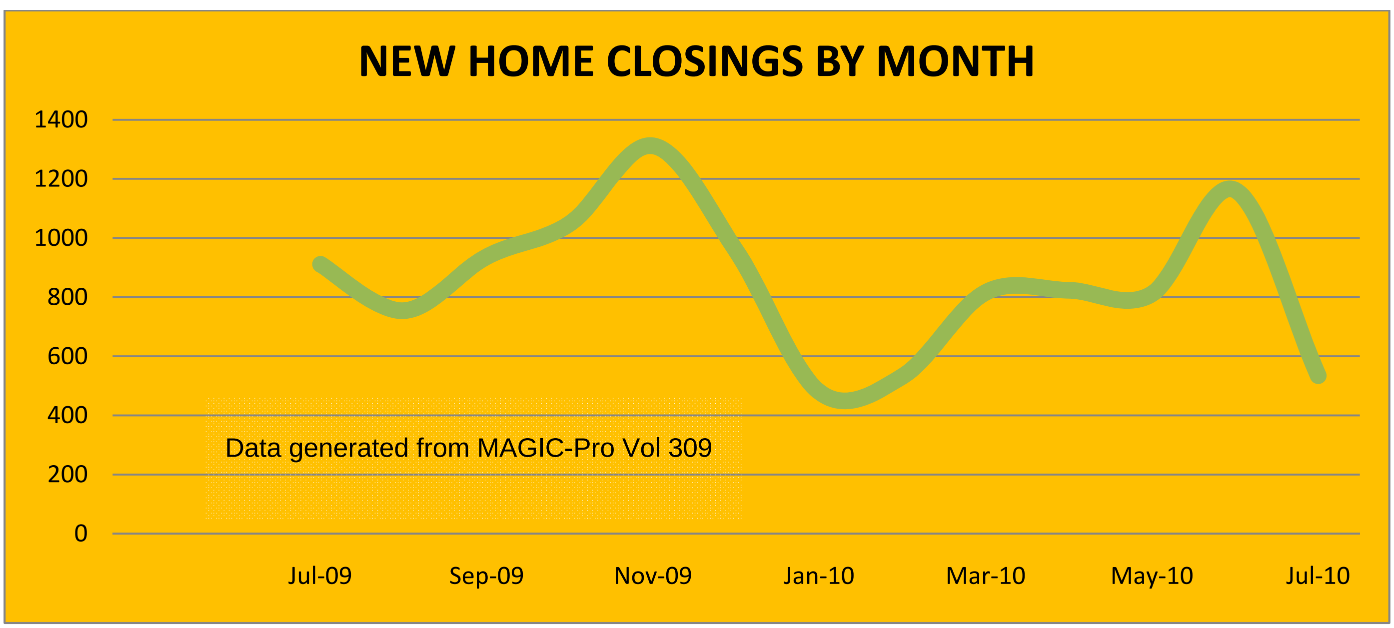

**The Phoenix Housing Market Letter - Volume 309 – August 16, 2010**

## "July housing stats fall back to pre-stimulus level as forecast…."

The metro Phoenix housing market data for July offered no surprises to those who understand the dynamics [or lack thereof] of the present economics of the region and the malaise of massive and seemingly stagnant unemployment, low consumer confidence as some 20% of the local population is un or under employed, the wild gyrations of the trader-driven stock market, and the near-failure of efforts by the feds to date to stem the foreclosure/short sale tsunami.

While that is a glum assessment, and no one still standing expects the housing market and overall construction activity to lead the region out of the "great recession", this month's numbers should not be a surprise to anyone nor should the year to date performance of the market.

**New home closings for the month totaled 534**. Year to date we have seen 5,157 closings of new homes, compared to 5,861 at this same point last year, for a decline of 12%. 2009 total new home closings were 10,869. This drop was easy to anticipate with the expiration of the federal tax stimulus. So far, our overall forecast for 2010 appears on target.

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### JULY 2010 METRO PHOENIX HOUSING MARKET DATA?

| **NEW HOME CLOSINGS** | Jul-10 |
|---|---|
| SALES BY MONTH | 534 |
| SAME MO LAST YEAR | 911 |
| *PERCENT CHG* | -41.38% |
| YTD CLOSINGS | 5,157 |
| YTD CLOSINGS LAST YR | 5,861 |
| *PERCENT CHG* | -12.01% |
| **AVG NEW PRICE** | 265,179 |
| **MED NEW PRICE** | 213,356 |

| **PERMITS** | Jul-10 |
|---|---|
| PERMITS BY MONTH | 548 |
| SAME MO LAST YR | 1108 |
| *PERCENT CHG* | -50.54% |
| YTD PERMITS | 4,666 |
| LAST YTD PERMIT | 4,605 |
| *PERCENT CHG* | 1.32% |

| **RESALES** | Jul-10 |
|---|---|
| RESALES BY MONTH | 7,027 |
| SAME MO LAST YR | 9,465 |
| *PERCENT CHG* | -25.76% |
| YTD RESALES | 55,107 |
| LAST YTD RESALES | 54,406 |
| *PERCENT CHG* | 1.29% |
| **AVG RES PRICE** | 172,061 |
| **MED RES PRICE** | 124,900 |

**[Source: The Sales and Permit Report – V309]**

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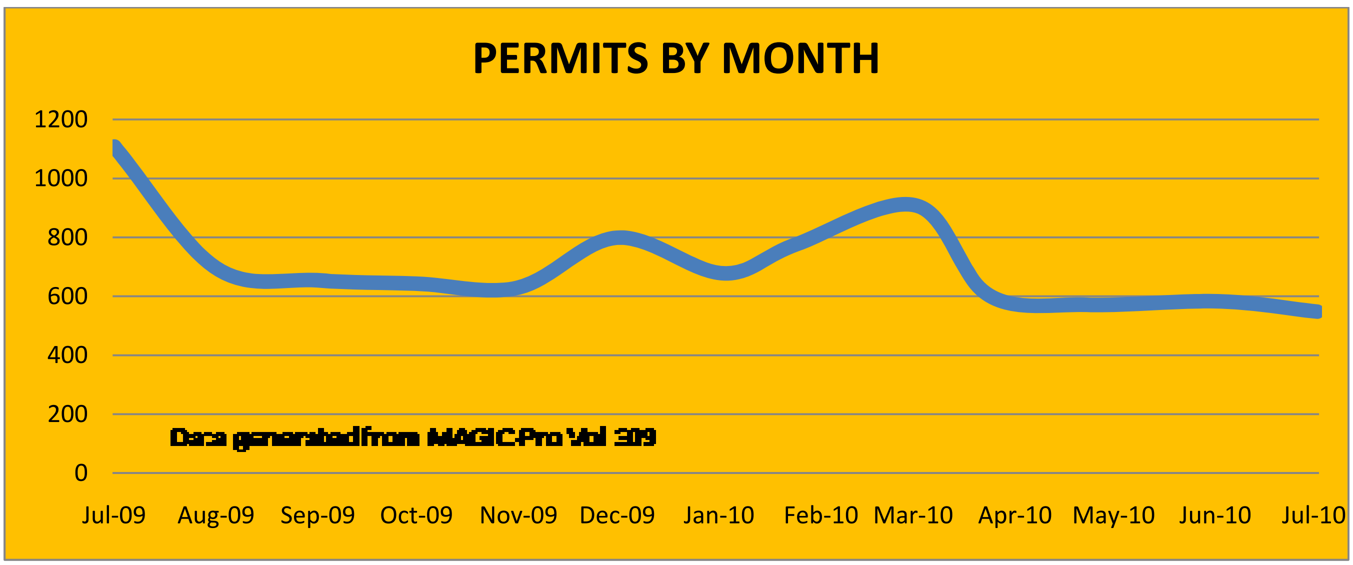
…. Continued from Page 1….

**New home permits have remained relatively stable for some months**, with only a "bump" for starts to meet the needs of the tax credit disrupting the steady 600 or so permits per month since last August. Later herein we will look at permit share by market area.




The level nature of the permit track suggests to us that builders in the aggregate are feeling little consumer pressure to increase production, or said another way, demand is flat at about the levels that we have seen for some time now, and even though we have anecdotal evidence that much/most of the spec inventory of those home builders that had been caught with large inventory levels has been sold-off through greatly discounted promotions and the tax credit stimulus.

We are continuously also told that little or no money is available for construction financing of specs, and that only 3-4 public home builders have continued to build specs [using corporate financing]. This lack of construction financing quickly drives the existing demand into the arms of those public builders … which of course is just what they counted on.

Year to date we have seen 4,666 single family permits issued in the metro market area [which includes Pinal County]. At this same time last year we had counted 4,605 permits, again suggesting that our forecast for 2010 is tracking as anticipated. If the rest of 2010 tracks as it did last year we will be right on our forecast number for permits.

If you aren't privy to those forecast numbers you can access them in the 45 page midyear update document available at www.rlbrownreports.com Log on, pay your money, and we will give you instructions on downloading this really comprehensive market and forecast report from our server. It is a must for planning your business strategy.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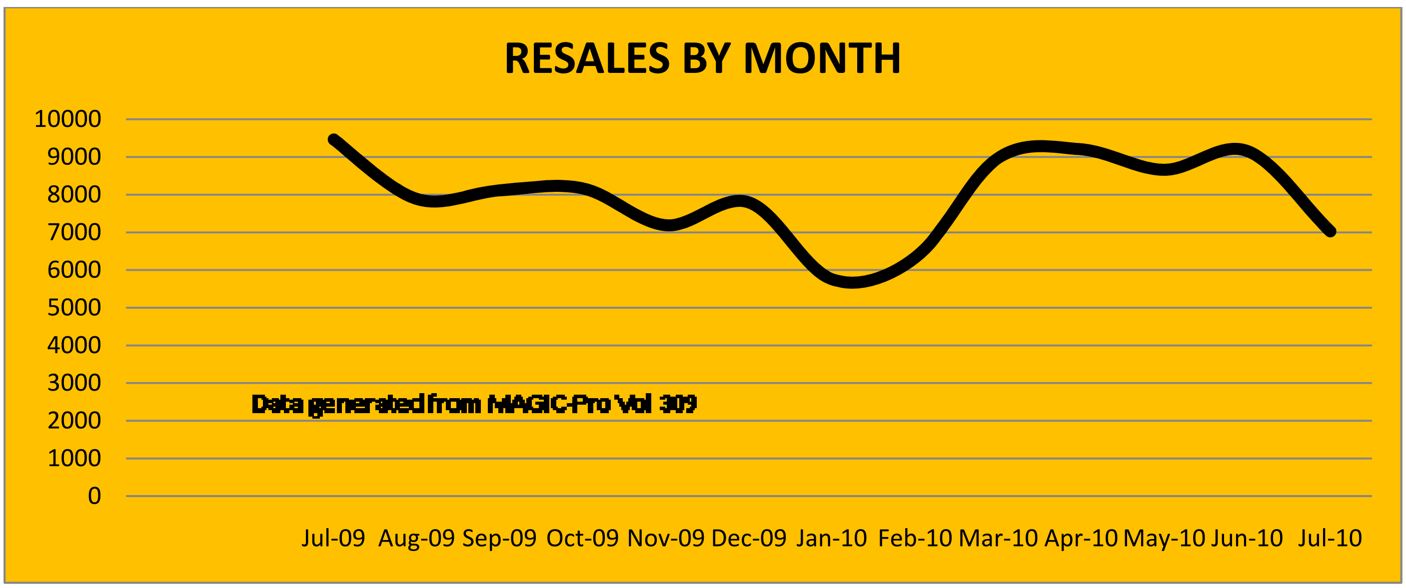
**The resale market in the metro area saw a 26% decline in sales over the same month last year,** which we see as both a reflection of the impact of the end of the tax credit stimulus and the general state of the economy.

We counted 7,027 resale transactions in July, versus 9,465 last July. Year to date we have 55,107 resales versus 54,406 for the same period last year. These numbers include Maricopa and Pinal county sales as well as both Realtor and owner direct sales, so represent the most accurate tally available from any source.




The resale market loss in July from June was a whopping 23.3%, a measure of the impact of the tax credit stimulus.

An interesting stat …. 63 of those units [0.9%] were purchased and flipped to a new buyer within the month of June. When we examined the January through June data we note that 3% [1,441 units] were purchased and flipped during that 6 month period.[1]

We will talk later herein about the changes in new and resale pricing for July.

[1] Using MAGIC-Pro Vol 309 we selected the resale transaction database, exported it to MS Excel, sorted by address, and searched for duplicate addresses, signifying two sales of the same address within the period. Further examination could have produced some interesting data re the amount of gain or less between the two transactions. Additionally, the data could have been diced into market areas or neighborhoods and the same analysis performed, yielding "flip gain" data by market segments.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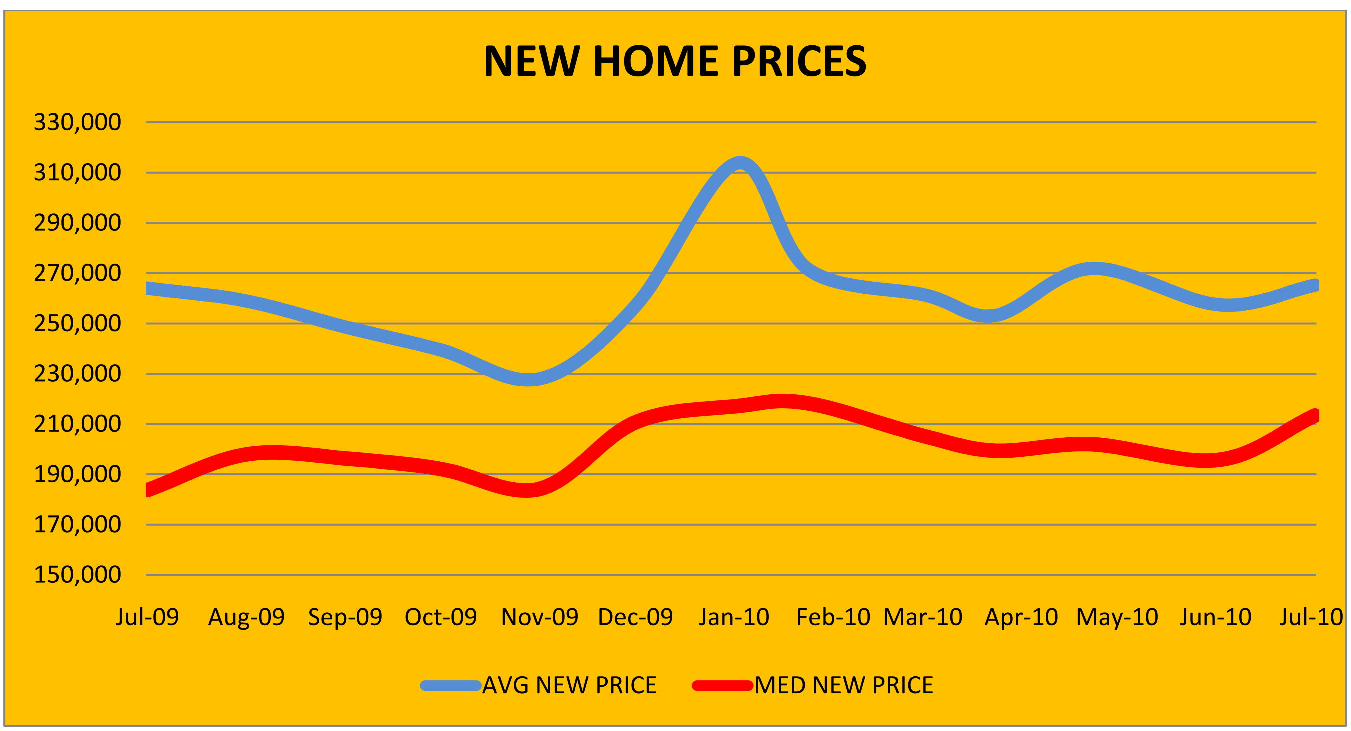
### "Metro-area home prices tracking fairly steady….."

While we are besieged with "indexes" of pricing and samples generated by a variety of sources, each seemingly telling a different story, we note that when we apply the tried and true median and average prices to the monthly new and resale home data, we see a modestly consistent trend, which should tell us that overall market prices overall in the region have remained moderately "unexcited" for several months. For a discussion of the validity and actual meaning of the various pricing tools see our Monday Morning Report dated 8/16/2010.

As you know, the average price can be more volatile, with only a couple of million dollar sales in a month having a visible impact, while the median prices depicts the level where half of the sales were above and half were below the middle price.

In new homes we can also calculate the base price changes of products on a subdivision by subdivision basis, yielding another was to track price trends. We maintain a data base that tracks historic base prices by plan for the life of a subdivision, and many subs and others use that data to understand individual price sensitivity by plan/square footage for a builder right down to the subdivision level.





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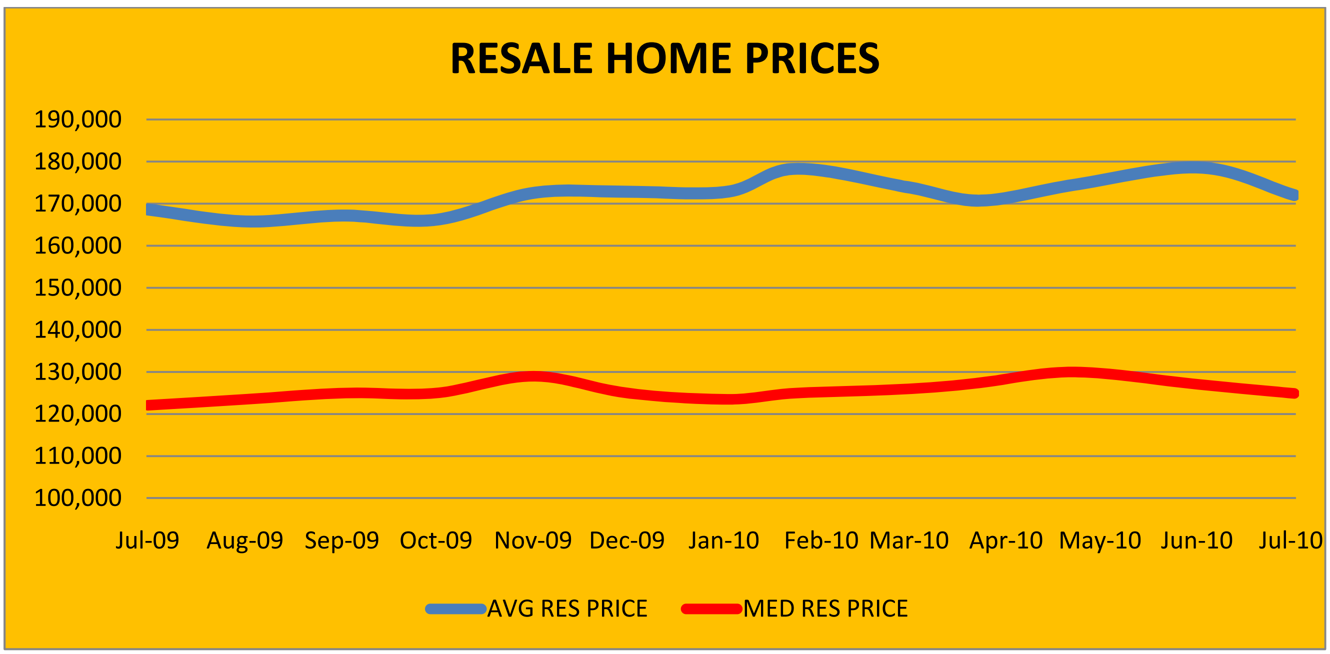
The resale price track is even more stable in appearance than is the new home track. In some respects this track flies in the face of those that forecast price doom in the face of continuing foreclosures and short sales driven by job losses and underwater loans.

Of course, we do see a downward bend in the last 2-3 months, so the track does indeed bear careful watching.




Regardless of your own “pricing theory”, we do suggest that price comparisons between new and resale closings at the neighborhood level are the most accurate gauge of the neighborhood pricing trend, which can offer far more guidance than a macro view.

We like to isolate a subdivision or neighborhood of interest and compare the new home sales at the transaction level over a recent period with the resales at a transaction level. We recently added transaction level data for both resales and new homes to the Pro+ version of our MAGIC-Pro software because so many had requested it. This tells the builder and the Realtor and Lender/Appraiser instantly what the premium is between new and resale homes in today’s market. This is a critical piece of knowledge for builders as they position new product and for sellers as they price their home for sale. It is also a great 3rd party tool for the Realtor representing a balky buyer or seller.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In our recent Mid-Year Forecast and Market Overview [available in printed form on our website] we discussed the current relationship between new home and resale home prices in the metro Phoenix marketplace. We showed this chart, among others, that graphically show the changes in the price relationship between new and resale housing over the period since 1992.

This is a telling graphic, and one which demands some careful study, because it clearly explains the decline of market share capture of the new home market versus the resale market. The red line tracks the month by month differential between new and resale median prices. The yellow box suggests the range of pricing differential in the period before the "bubble", and the yellow circle highlights today's level. The graph explains a lot doesn't it?



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### "The over $300k market continues to be a struggle for all but a few…."

Many subs and homebuilders who cater to the move up new housing market continue to be frustrated by the low velocities in a market dominated by first time buyers and buyers of homes generally prices under $300k.

The map below plots those subdivisions where the average new home price is $300k or more and where there were 2 or more new home closings in July. There were 25 of these communities, and they are scattered in all segments of the region.

The poster child of success this month was Meritage Homes' Sonoran Foothills 17 community in the North Valley, with 5 new home closings for the month. Over the last 6 months the community has averaged 1.67 closings per month. At an average sales price of $368,000 and an average base price of $349,900.




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Year to date there have been 444 sales in subdivisions where the average closing price has been >$300k. There are 116 active subdivisions that meet those criteria. Eight of those communities have had more than 12 closings year to date. Four of them are in Phoenix, two in Chandler, One in Scottsdale and one in Gilbert.[2]

The table below depicts July new home closings by city and price bracket for selected cities within the region. Data is available in MAGIC-Pro for all cities. [The price bracket represents the average subdivision closing price over the last six months. Some individual closings may fall outside the subdivision averages. A more finite analysis can be developed from the New Home Transaction Dataset in MAGIC-Pro Vol 309.]

**JULY CLOSINGS BY CITY BY PRICE BRACKET OVER $300K**

| CITY | $900k_ | $750-900 | $600-750 | $400-600 | $300-400 |
|---|---|---|---|---|---|
| BUC | 0 | 0 | 0 | 0 | 0 |
| CG | 0 | 0 | 0 | 0 | 0 |
| CHN | 0 | 0 | 4 | 7 | 19 |
| FTH | 0 | 2 | 0 | 0 | 1 |
| GLEN | 0 | 0 | 0 | 0 | 0 |
| GIL | 0 | 0 | 0 | 0 | 9 |
| GYR | 0 | 0 | 0 | 0 | 16 |
| MAR | 0 | 0 | 0 | 0 | 0 |
| MESA | 0 | 0 | 0 | 0 | 6 |
| PEORIA | 0 | 0 | 0 | 1 | 11 |
| PHX | 0 | 0 | 3 | 7 | 34 |
| PI | 0 | 0 | 0 | 0 | 4 |
| QC | 0 | 0 | 0 | 0 | 3 |
| SD | 5 | 0 | 6 | 3 | 0 |
| SUR | 0 | 0 | 0 | 0 | 0 |
| TE | 0 | 0 | 4 | 2 | 0 |

[2] This data was developed from the Absorption Table in Volume 309 in our MAGIC-Professional data application.


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## "The Grand Opening Corner …. Taylor Morrison Homes"

**Adora Trails – The Journey Begins.** The Valley's newest sanctuary – and the largest land purchase ever by Taylor Morrison – will be unveiled to the public on September 18.

A special REALTOR preview of the community is scheduled for September 10.

Adora Trails is the latest development by the nation's No. 1 private homebuilder and is comprised of almost 1,900 Gilbert home sites strategically placed within a community that boasts miles of walking trails, an on-site elementary school, a 4,000-square-foot clubhouse and a four-acre fishing lake situated in the heart of the community.

Some of Taylor Morrison's most popular home designs, ranging from 1,328 to 3,543 square feet, are planned for the first phase of this community, located just minutes from three freeways - Loop 101, Loop 202 and the U.S. 60 – off Riggs Road between Val Vista and Higley Roads.

For more information on this great master planned community or to attend the model opening, please contact Angela Elliott, our Internet Home Consultant, by calling (480) 346-1738 or visit AdoraTrails.com.

Amethyst plan, European elevation

Lily plan, Craftsman elevation (shown with

Optional stone veneer)


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Each month we feature a grand opening community by a MAGIC-Pro user. If you have a community you would like to have included just give Greg a call at 480-614-0211. There is no charge for this feature.



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## "Our view of the marketplace and other worthy matters…."

It is obvious that no one is satisfied with the state of the regional housing market, or much of anything else these days. The frustrations seem to grow daily as efforts to get the economy are deemed unsatisfactory by many/most of us and we have a hard time understanding why leadership doesn't seem to be leading.

In fact, a colleague asked the other day if perhaps we have been so coddled for so long that we have a jaundiced view of what leadership is all about. We are *entitled* to effective leadership, which then sets an impossible standard for those we allow to become our leaders, either by election or our abandonment of the process and abdication of citizen responsibility.

Those of us who have been a part of the housing market for several decades have trouble with the notion that housings role in the economy [and our personal fortunes] has been so diminished by our excesses that its role has been relegated to a role far different than the nation and particularly this region have seen for so long.

You have seen the disturbing articles by learned folks about the fall from status of our economy and the US role in the world, about our second class education system, broken society, and how our kids and grandkids will be second to many in opportunity and ill-prepared should they be so lucky to find any.

We see the growing frustration about permanent job losses that could have a long term impact on perhaps as many as 25% of our citizens, about banks flush with cash but unwilling to loan, about the demise of *investment* in the markets in favor or speculation by the *insiders*, and more.

Would term limits help? Would "throw the bums out" help. Have we the people actually lost control of the process? I certainly don't know. But I do know that the housing industry has been changed and the consumer's desire and capability for a home has changed, and 2005 will not be back in time to allow housing industry allied firms the luxury of just waiting.

Nor does 2005 have to come back for there to be a good and profitable marketplace for new housing here in Phoenix. We discussed that at some length last month, and a number of subs and builders commented that those total market stats were really enlightening.

The music has changed and we need to learn to dance to the beat of now, not yesterday. The price dynamics have changed from yesterday as the purchase capability of the buyers has changed. There is a really large present demand for housing remaining in the region, part of it speculative/investment oriented, part of it first time buyer, and part of it retired/relocating. The new home market needs to go after a bigger share that we have today.

Many subs and builders have adapted nicely, and their names are part of a growing list that you see on these pages. We talk with the most innovative of these folks weekly and they have affordable and very effective tools, like our MAGIC-Pro housing data application, that allows anyone with a web connection and a basic laptop to mine a wealth of easy to


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understand "battlefield" intelligence data to find the new customers whose business you need to have, or understand how your strategy is working or not working and how the market has shifted.

We really are in that kind of a business environment where "playing the hand we were dealt" is the only option. Eventually there will be an improvement in the economy as Americans readapt, retrain, and reequip themselves and their businesses. Then we will see real jobs grow, and when people are back to work their confidence in the future will return and new housing can attract them thru innovation and new efficiencies in housing and neighborhoods. In the meantime, the most effective amongst us are capturing more market share and growing our companies.

Greg Burger RL Brown

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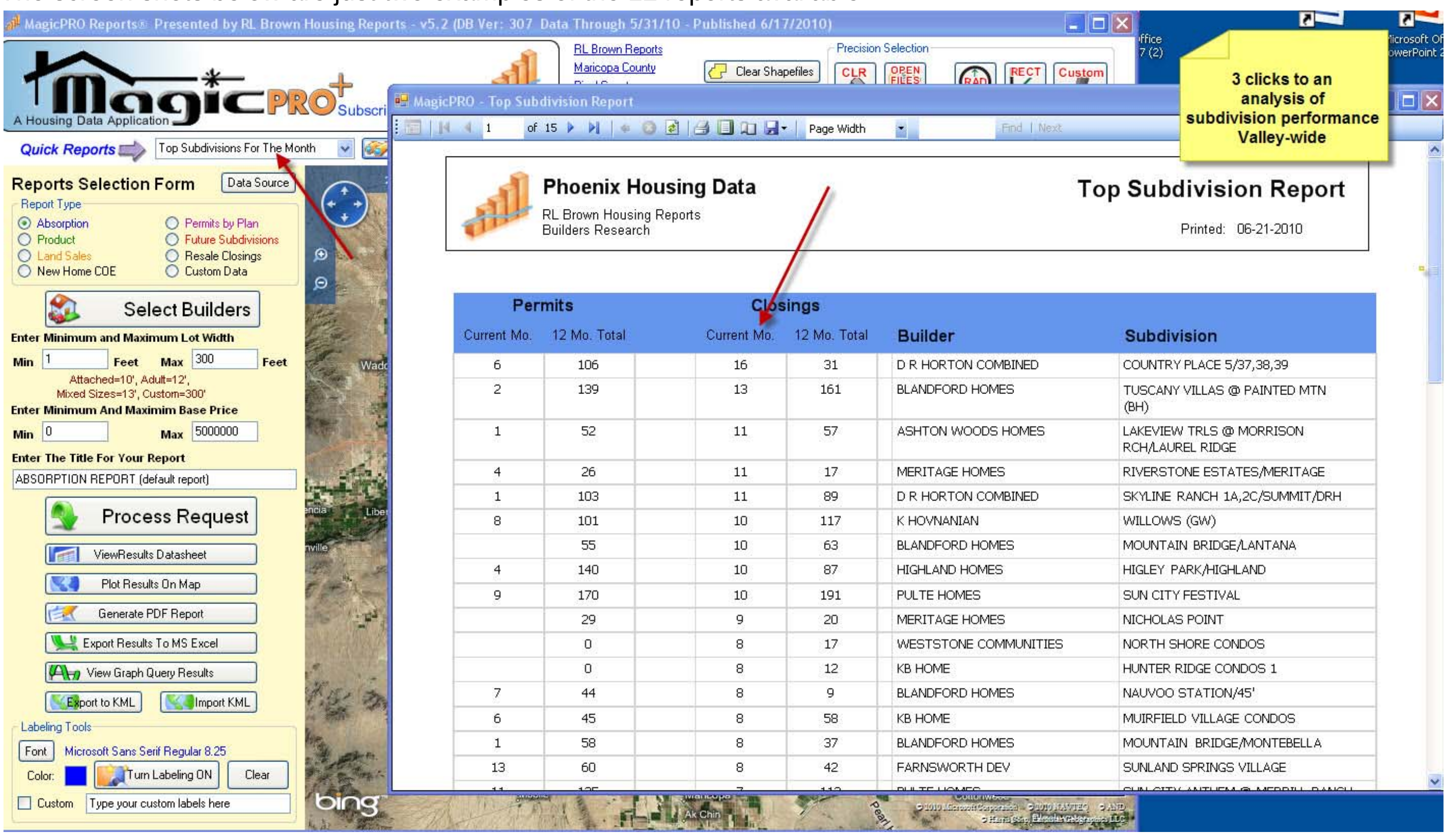
The screen shots below are just two examples of the 12 reports available.




| Permits Current Mo. | Permits 12 Mo. Total | Closings Current Mo. | Closings 12 Mo. Total | Builder | Subdivision |
|---|---|---|---|---|---|
| 6 | 106 | 16 | 31 | D R HORTON COMBINED | COUNTRY PLACE 5/37,38,39 |
| 2 | 139 | 13 | 161 | BLANDFORD HOMES | TUSCANY VILLAS @ PAINTED MTN (BH) |
| 1 | 52 | 11 | 57 | ASHTON WOODS HOMES | LAKEVIEW TRLS @ MORRISON RCH/LAUREL RIDGE |
| 4 | 26 | 11 | 17 | MERITAGE HOMES | RIVERSTONE ESTATES/MERITAGE |
| 1 | 103 | 11 | 89 | D R HORTON COMBINED | SKYLINE RANCH 1A,2C/SUMMIT/DRH |
| 8 | 101 | 10 | 117 | K HOVNANIAN | WILLOWS (GW) |
| | 55 | 10 | 63 | BLANDFORD HOMES | MOUNTAIN BRIDGE/LANTANA |
| 4 | 140 | 10 | 87 | HIGHLAND HOMES | HIGLEY PARK/HIGHLAND |
| 9 | 170 | 10 | 191 | PULTE HOMES | SUN CITY FESTIVAL |
| | 29 | 9 | 20 | MERITAGE HOMES | NICHOLAS POINT |
| | 0 | 8 | 17 | WESTSTONE COMMUNITIES | NORTH SHORE CONDOS |
| | 0 | 8 | 12 | KB HOME | HUNTER RIDGE CONDOS 1 |
| 7 | 44 | 8 | 9 | BLANDFORD HOMES | NAUVOO STATION/45' |
| 6 | 45 | 8 | 58 | KB HOME | MUIRFIELD VILLAGE CONDOS |
| 1 | 58 | 8 | 37 | BLANDFORD HOMES | MOUNTAIN BRIDGE/MONTEBELLA |
| 13 | 60 | 8 | 42 | FARNSWORTH DEV | SUNLAND SPRINGS VILLAGE |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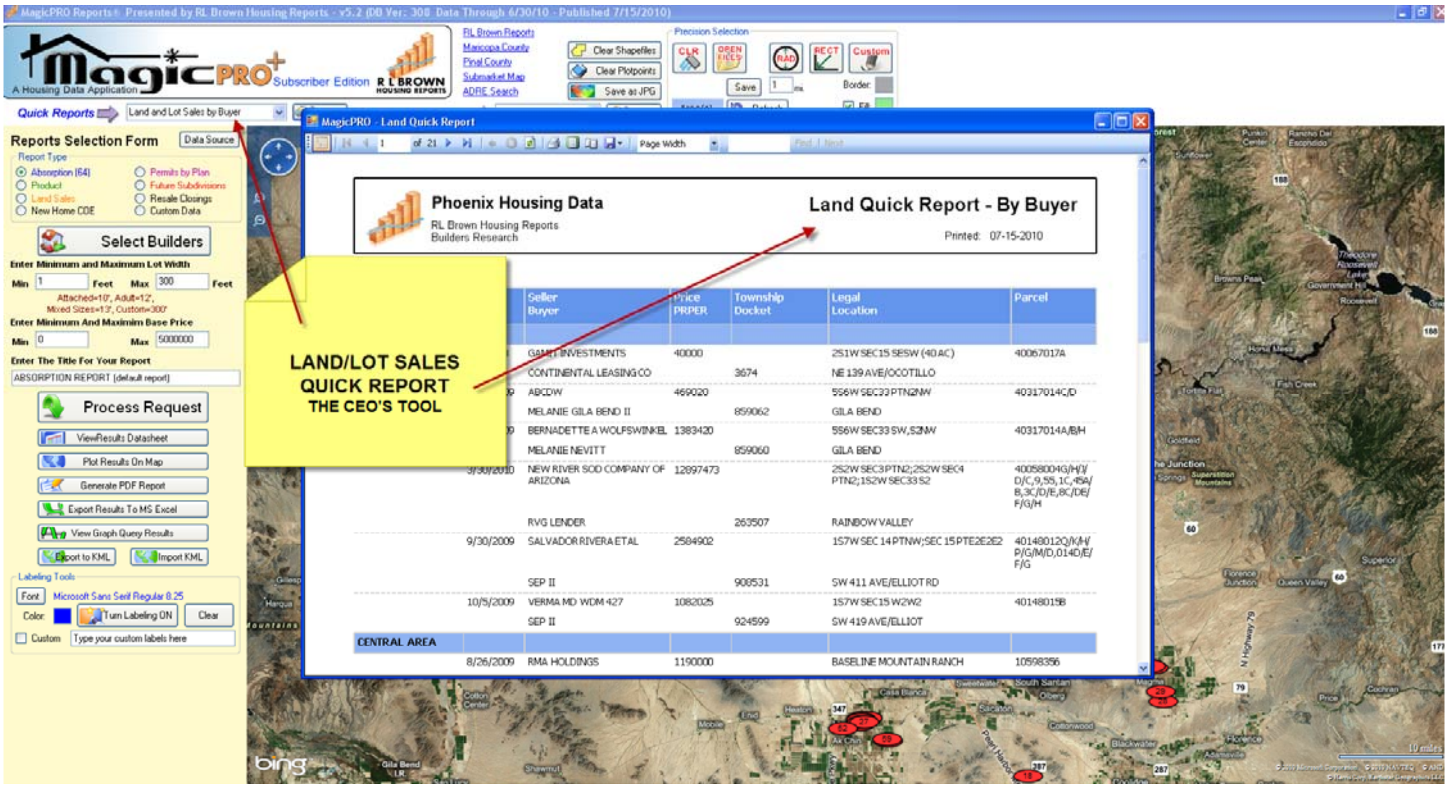


**The Sales and Permit Report –** An affordable electronic or printed [your choice] monthly report detailing the monthly sales and permits for each active subdivisions Valley-wide. This report has been published continuously since 1985.

**The Sales and Permit E-Report** - The "bible" of permit and closing data by subdivision with the last 12 month's permits and closing, by month, by subdivision … in Xls format.

**Vacant Lot Analysis – A** COMPREHENSIVE ANALYSIS OF THE VACANT LOT INVENTORY IN ACTIVE SUBDIVISIONS, analyzed by market area, by price range, by lot size, and by velocity.

**Dormant Lot Report** – A spreadsheet based identification of the dormant subdivisions with finished lot inventory. Searchable and sortable for lot size, area, and more.

**The Annual Report 2009**- The most comprehensive statistical abstract of this housing market available anywhere, covering 1985 thru 2009...


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