

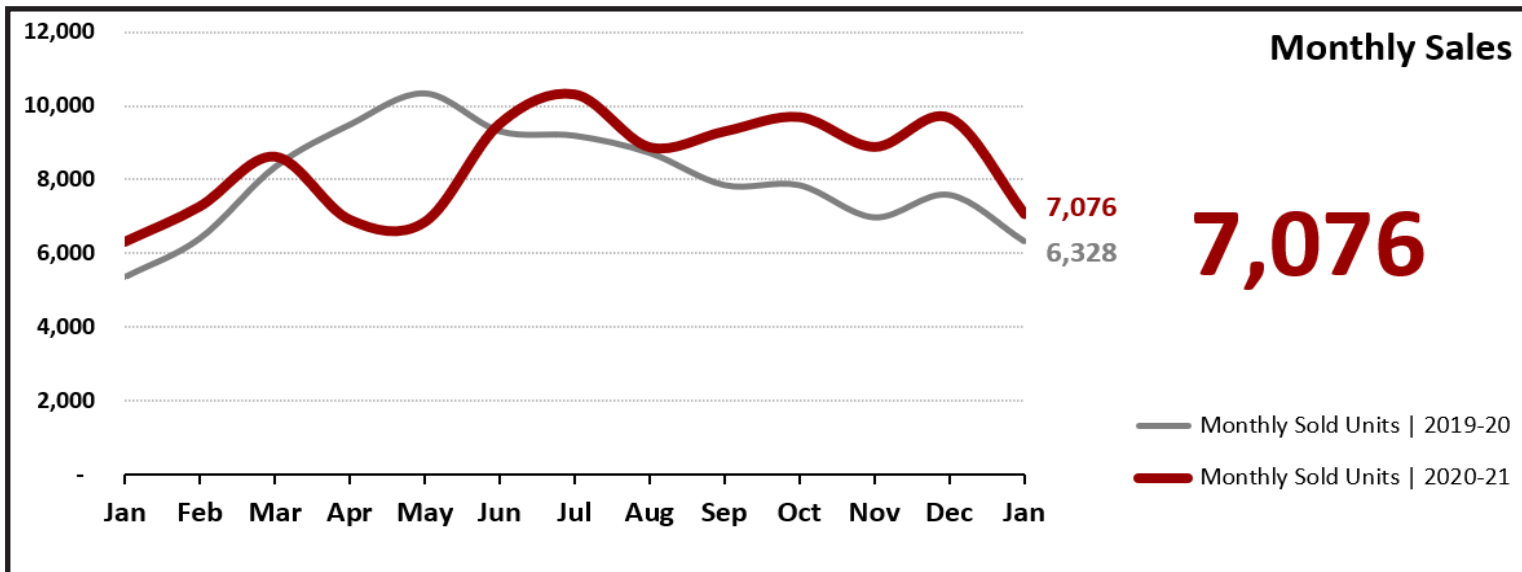
STAT

Your Monthly Statistics for the **Phoenix Metro** Area



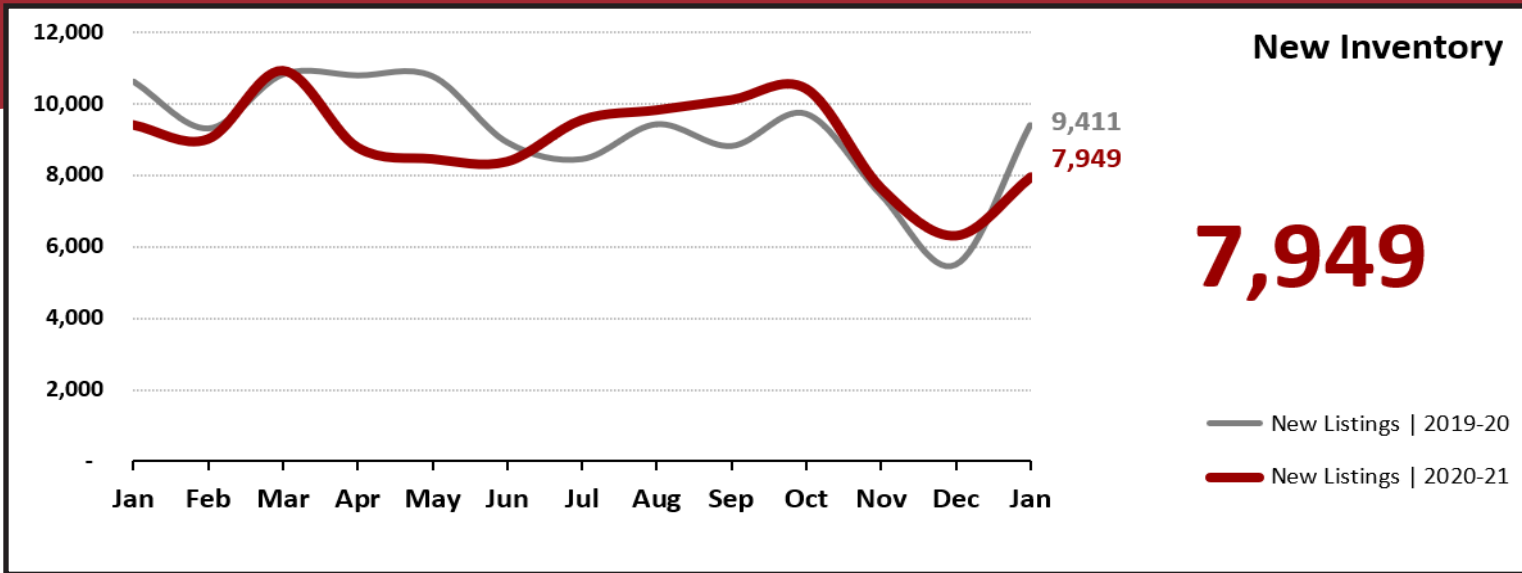
DATA FOR **JANUARY 2021**

Published February 17, 2021

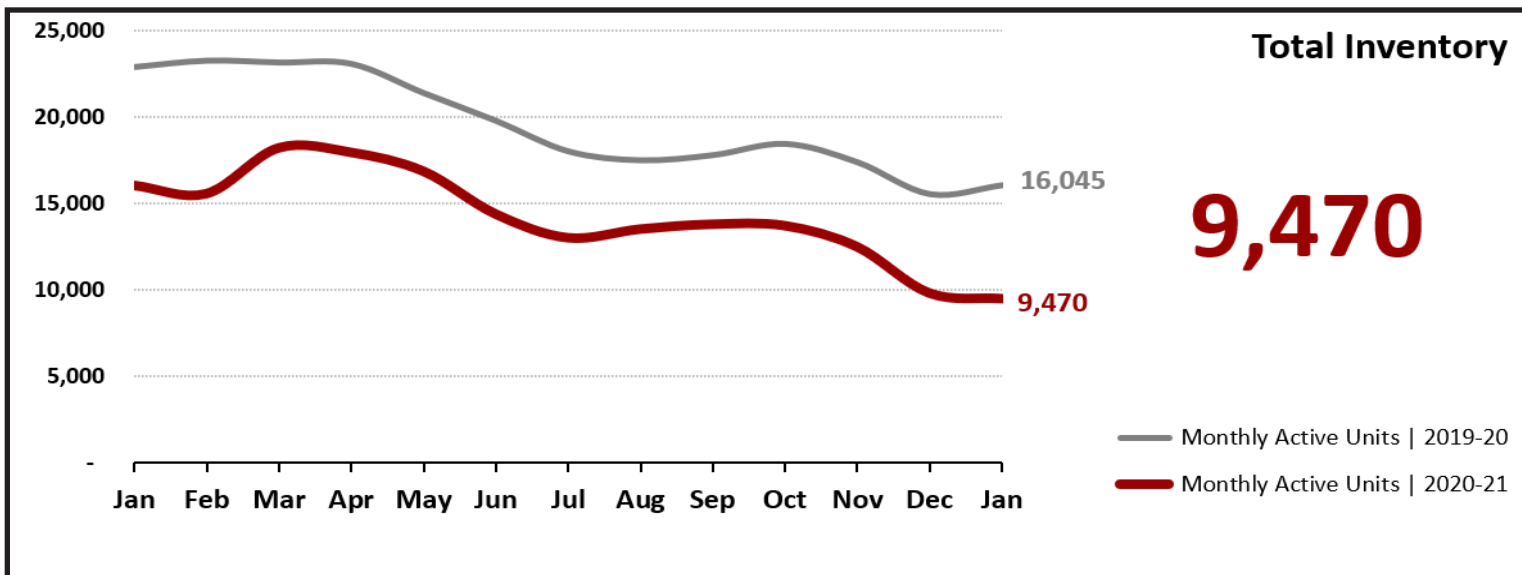


Sales are down **-26.8%** month-over-month. The year-over-year comparison is up **+11.8%**.

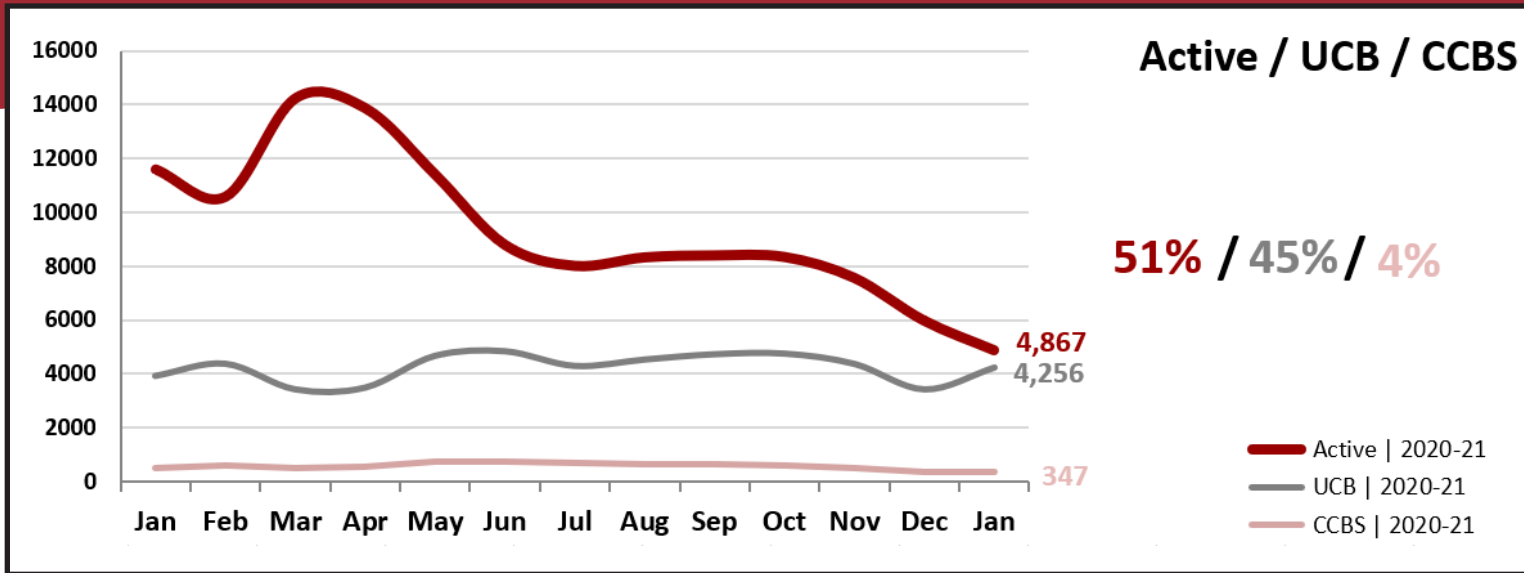
Closed MLS sales with a close of escrow date from 1/1/21 to 1/31/21, 0 day DOM sales removed



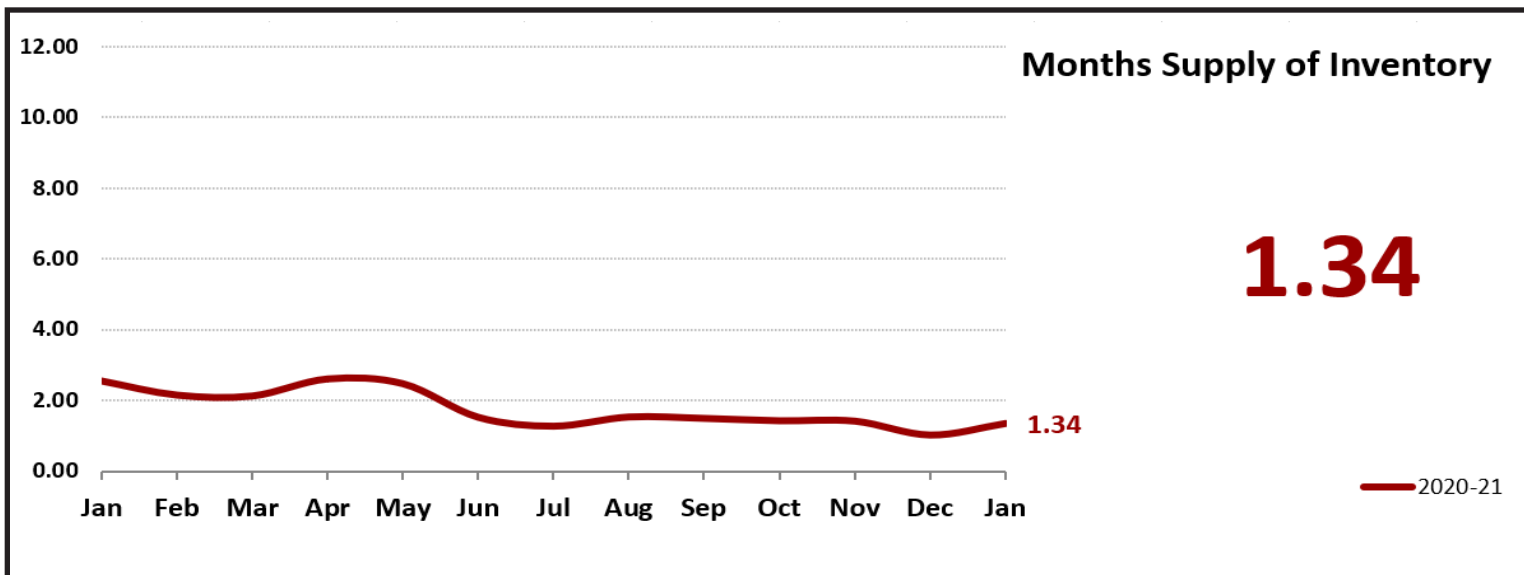
New inventory is up **+26.0%** month-over-month while the year-over-year comparison decreased by **-15.5%**.



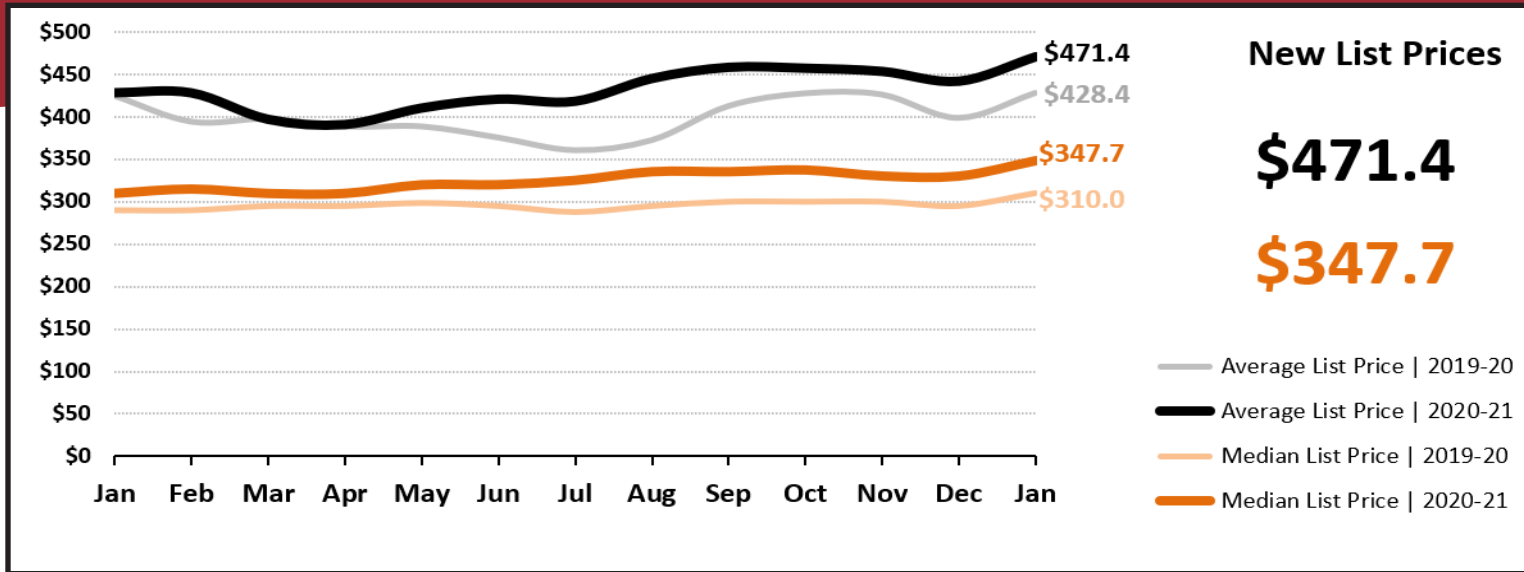
Total inventory has a month-over-month decrease of **-3.3%** while year-over-year reflects a decrease of **-41.0%**.



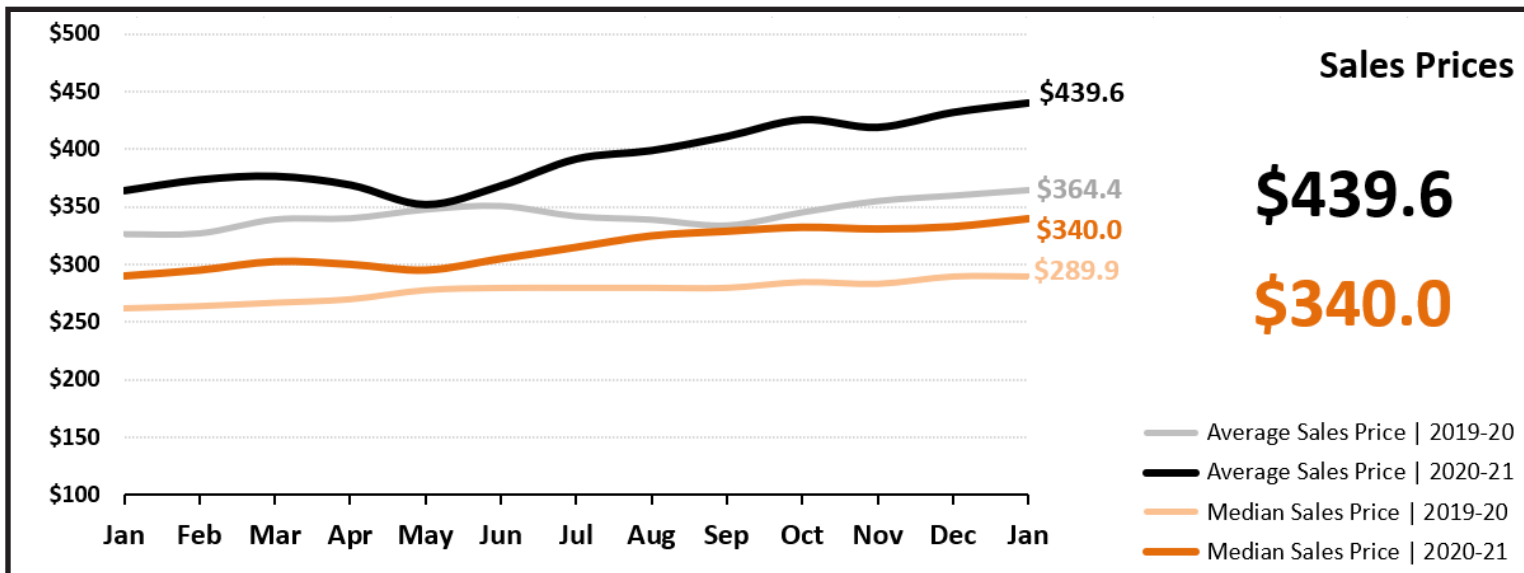
January UCB listings percent of total inventory was **44.9%** with January CCBS listings at **3.7%** of total inventory.



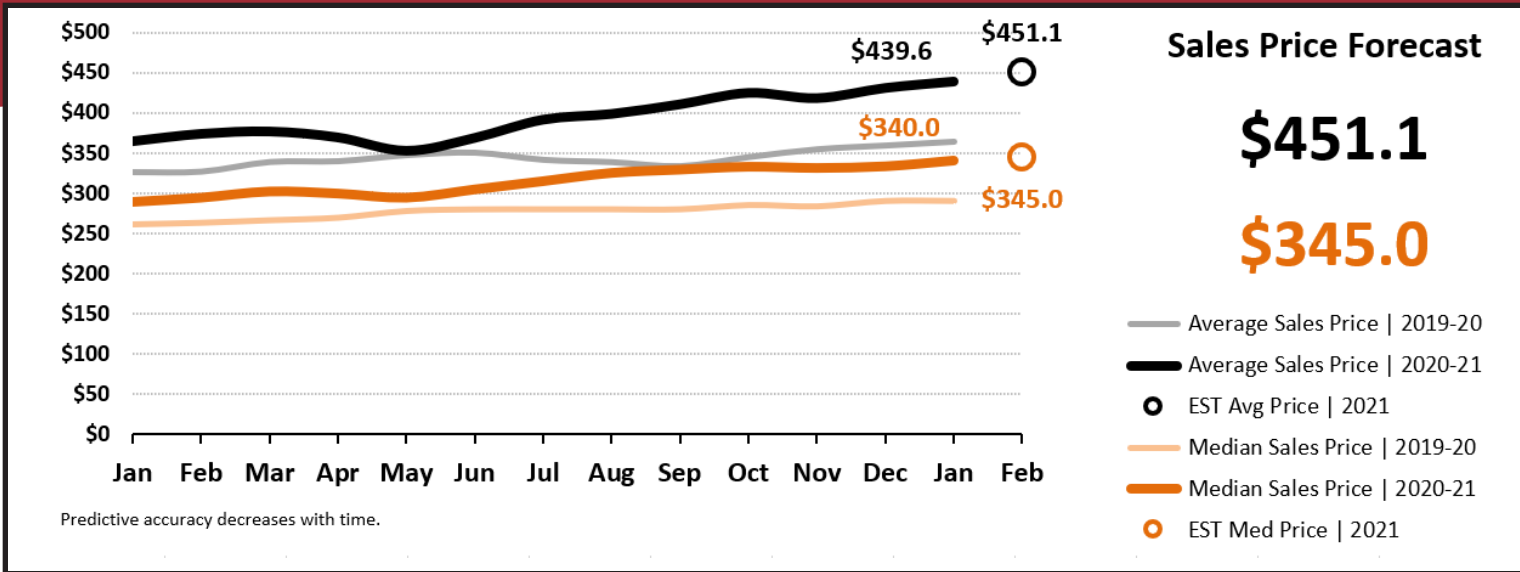
Months supply of inventory for December was **1.01** with January at **1.34**.



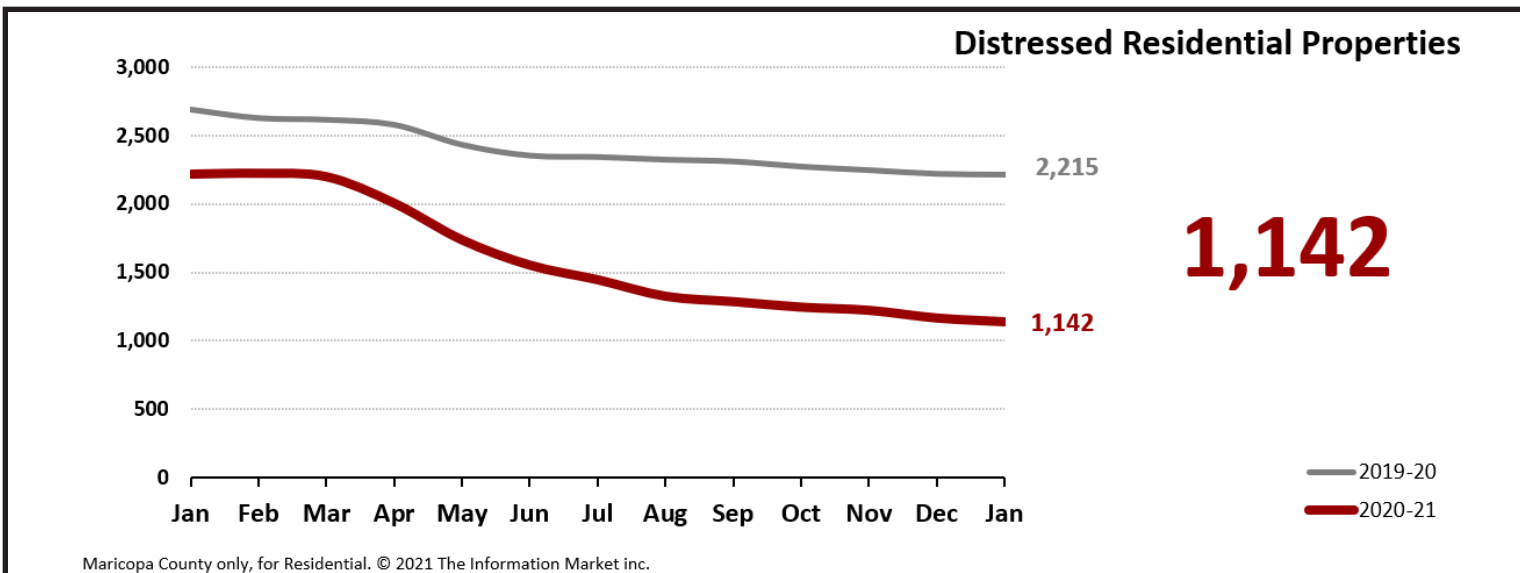
Average new list prices are up **+10.0%** year-over-year. The year-over-year median is up **+12.2%**.



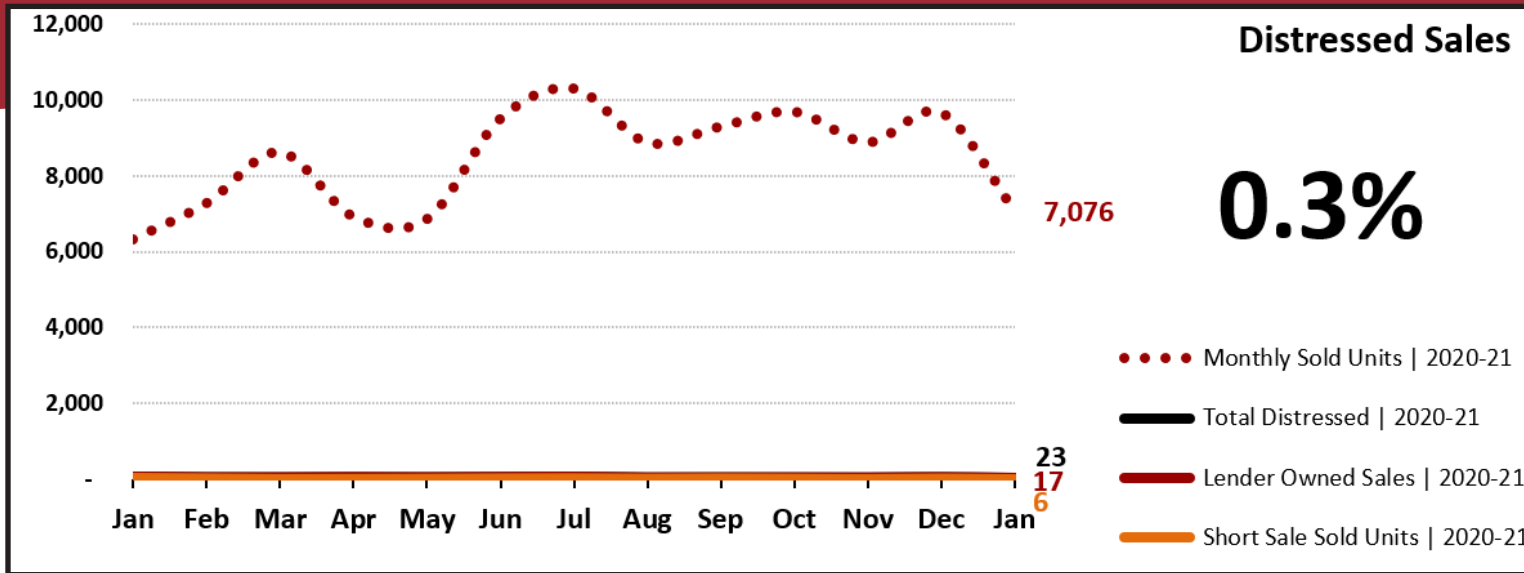
The average sales price is up **+20.6%** year-over-year while the year-over-year median sales price is also up **+17.3%**.



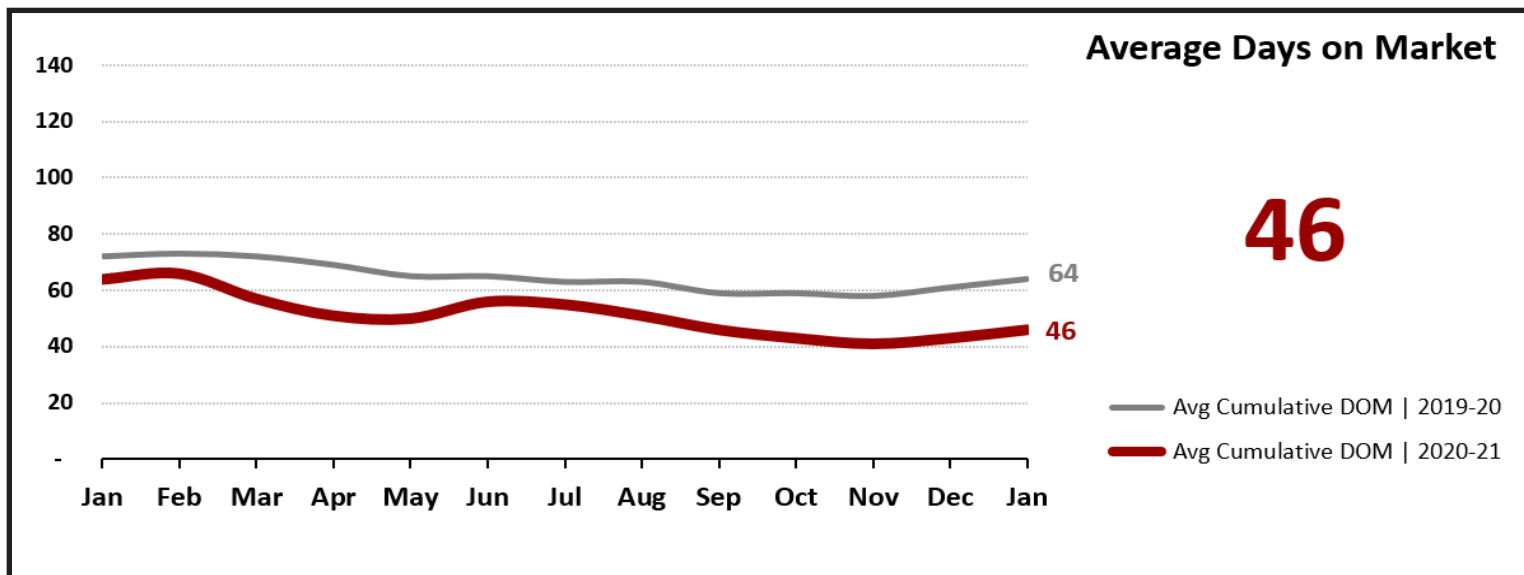
An **increase** is forecasted in February for both average and median sales prices.



Foreclosures pending month-over-month showed a decrease of **-2.3%** while the year-over-year figure was down **-48.4%**.



Distressed sales accounted for **0.3%** of total sales, down from the previous month of **0.5%**. Short sales dropped **-62.5%** year-over-year. Lender-owned sales dropped **-66.7%** year-over-year.



Days on market were down **-18** days year-over-year while month-over-month went up **+3** days.

As anticipated, ARMLS reported the highest sales volume of any January in our history. The 7,076 home sales this January eclipsed the prior January record for ARMLS sales by 6.69%. There were 6,632 sales reported by ARMLS in January 2005. Combine sales volume from last month with the highest average sales price ever (\$439,620) and you arrive at an astounding gross dollar volume of \$3.11 billion dollars, an annual increase of 35%. It should also be noted that on a historical basis, January is the slowest month of the year for sales, making January activity that much more impressive. There were two fewer days to conduct business than last year.

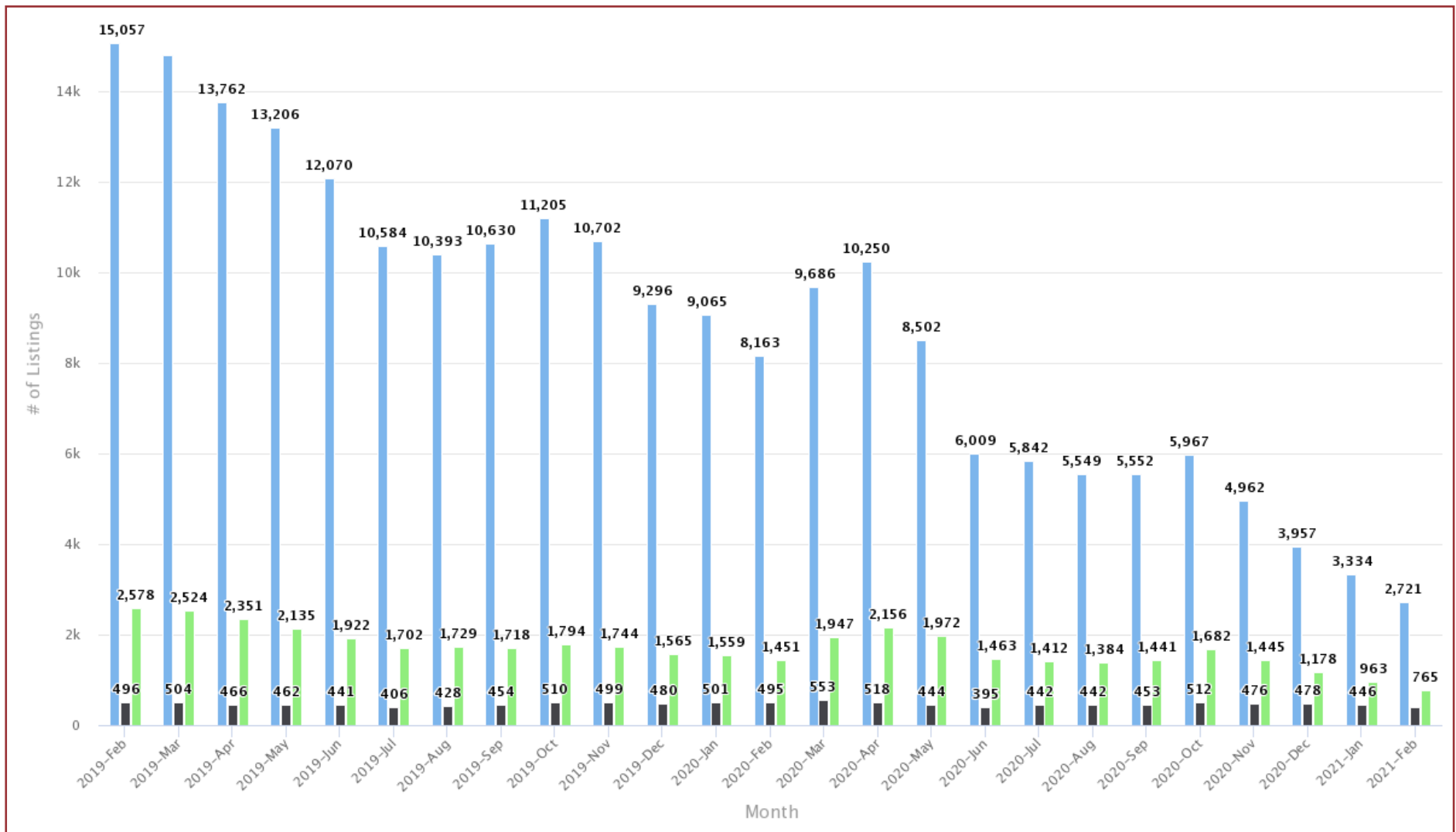
One of the things I do each month before writing STAT is to go back and review our commentary from the prior year. This is done primarily for two reasons. The first is to check the veracity of our reports. The second is to monitor our seasonal patterns. Last year we discussed falling interest rates, falling inventories, higher sales volume and rising prices. We described our market as a full-blown sellers' market with the added caveat, *"Anyone waiting for prices to fall, well, they'll be waiting."*

Now jump forward to January 2021. The current interest rate for a 30-year fixed-rate mortgage is now 2.73% compared to 3.47% one year ago. Year-over-year, active listings are down 58%, sales volume is up 11.8% and the median sales price is up 17.28%. And now we are entering our traditional buying season. We are now facing a "full-blown sellers' market" on steroids. At STAT we do not really forecast the future. With access to MLS and public records data, we simply count and project. At times, our projections seem unbelievable, but what has been even more unbelievable are the actual closing data each month.

Our pending price index (PPI) has underestimated the median sales price for nine consecutive months with prices exceeding our mathematical models. Our current market is beyond description. I can only imagine the stress buyers' agents are experiencing. Anecdotally, we're hearing properties selling as soon as they hit the market, with multiple offers, with offers well above asking price. Our data supports these reports. Real estate is cyclical and at some point, our current course will change, but changes in housing do not occur overnight without a catastrophic event. When June numbers are reported, the time of year when sales volume and prices traditionally peak, anyone in denial is in for an even bigger shock.

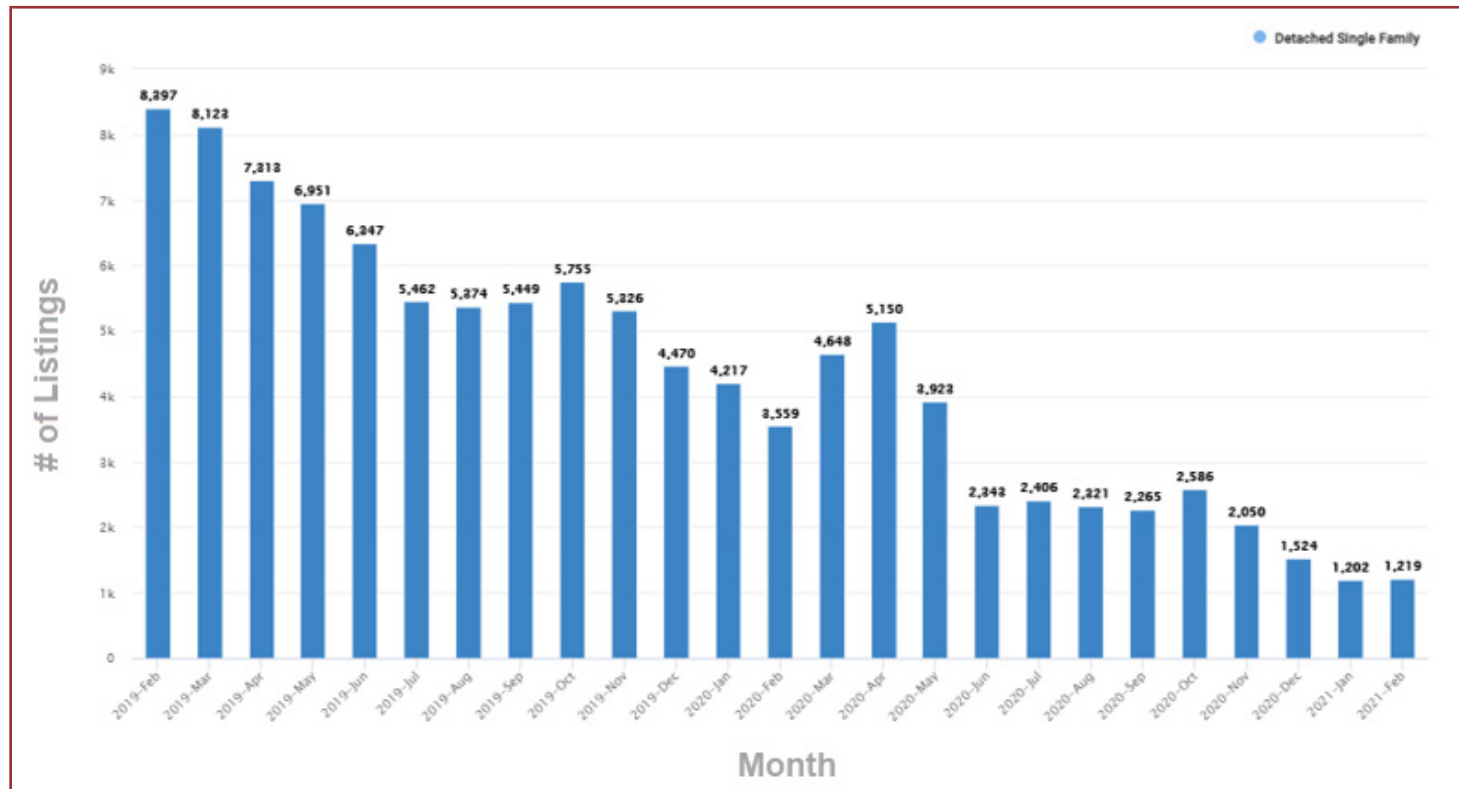
The charts below, courtesy of RapidStats chart builder, display the severe shortage of homes listed for sale. The first chart shows ARMLS active listings by dwelling type and tracks their descent over the past 24 months. In February 2019 ARMLS was reporting only 18,131 total active listings, which was 37% below what we would define as a typical market. At the time of this report, ARMLS is reporting only 4,488 active listings without a contract. To place this number in a historical perspective, current listings are 84% below what would be considered a typical market. The inventory for manufactured/mobile homes has shown little change over the past two years, while detached single-family listings have declined over 78%.

ARMLS Acting Listing by Dwelling Type via RapidStats



The sweet spot for the Maricopa County housing market is shown in the next chart. We saw an uptick in these listings at the onset of COVID in April and March of last year only to fall dramatically in May. Today we have less than a quarter of the number of detached single-family residences for sale in Maricopa County than we had in May 2020.

Maricopa County Detached Single Family 200k to 500k via RapidStats



Michael Orr of the Cromford report puts these numbers in perspective in his February 1 daily observation.

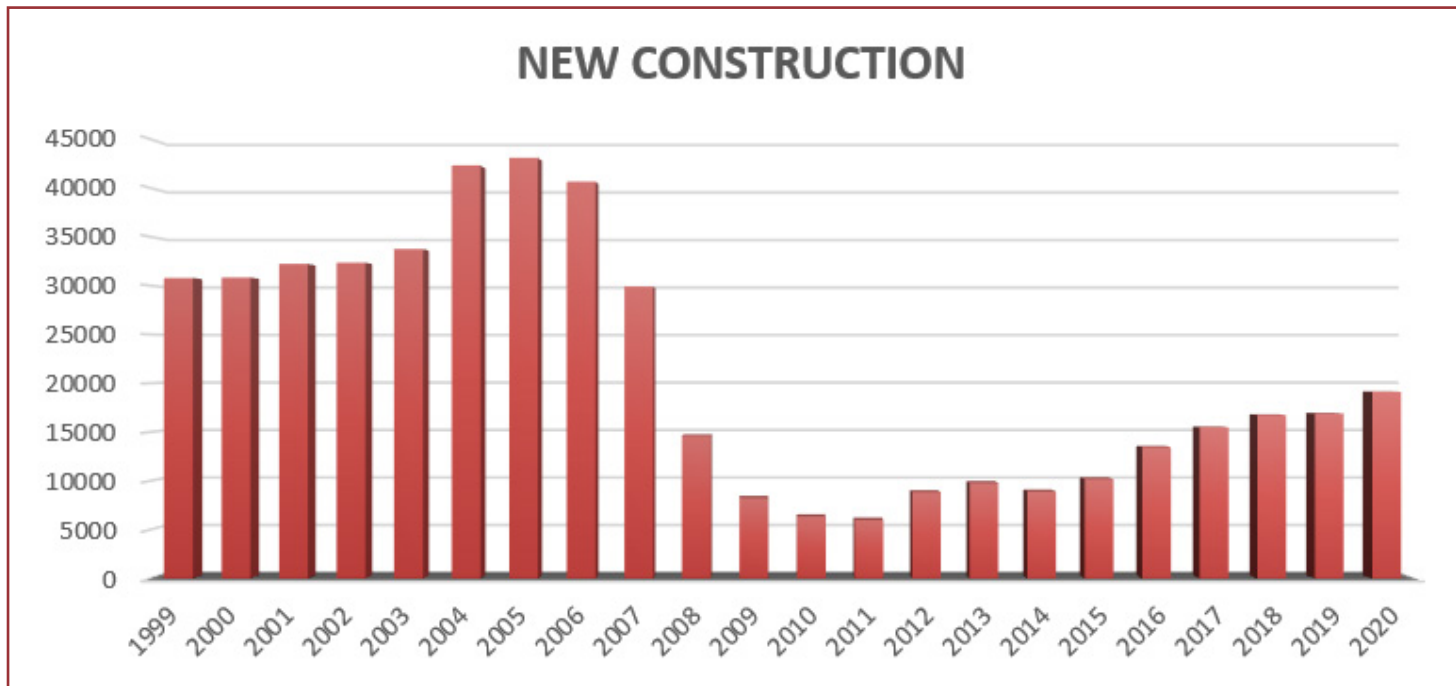
“It is difficult to describe the state of the housing market in Greater Phoenix these days. Just quoting the raw facts makes many people feel you are exaggerating wildly. There are those who seem to believe it cannot really be true when so many people are struggling with their daily lives, battling the worst pandemic we have seen for many decades. However, we can only continue to present the facts. The housing market is experiencing moderately strong demand, but this is not the important matter. Variations in demand are almost insignificant. This is because the supply of resale homes is so poor it crashes below record lows almost every week.”

One method for looking at this is to use the Contract Ratio, which compares the number of homes under contract with the number of homes available for sale without a contract. In a normal market the Contract Ratio tends to lie between 30 and 60. Higher for a low-priced segment and lower for a high-priced segment. The Contract Ratio for Greater Phoenix (all dwelling types) on February 1, 2021 stands at 239. Last year we saw 89. The previous record high was 174, set December 2020. The Contract Ratio tells us how hot the market is, and how hard it is to find a home to buy. Over 60 represents a hot market and over 100 a feeding frenzy. We have never had to invent a description for when it goes over 200, because it has never done this before. For the market below \$500,000, the Contract Ratio is over 300. The implication is that home price appreciation will go much higher in 2021 than it did in 2020. Be warned. Do not be in denial.”

Last month in STAT we promised to look at new construction and foreclosure numbers, two metrics that have increased inventory levels in the past as well as interest rates, a current tailwind in today’s market. We will discuss interest rates in detail in our next STAT. Let us begin with new construction.

New Construction

Historically, Maricopa County has always been about growth. Decade after decade new home construction dominated our housing landscape. It was not uncommon for newly built homes to account for 25% to 30% of all homes sold during any given year. As the chart below shows, this trend abruptly changed in 2007. Even with the number of new homes sold in Maricopa County increasing each year for the last 9 years, only 14.6% of all homes sold in Maricopa County in January 2021 were new builds, approximately half of prior decades. The bad news is that we cannot look to the home building industry to provide the additional inventory our current market needs. The good news is that the home building industry is experiencing slow, stable and sustainable growth, offering assurances we will not see a repeat of '04, '05 and '06. We expect 2021 to follow recent trends with only a modest increase in newly built homes. It should be noted the gap between the median priced new home and the median priced resale is in decline. According to Maricopa County public records, in January of this year the median sales price for a new build was \$382,170 compared to \$342,000 for the median priced resale, or a gap of just over \$42,000. A year ago, this gap was nearly double at \$81,000. The new construction median sales price was only 11.7% higher than the median resale this January compared to 28.3% last January.



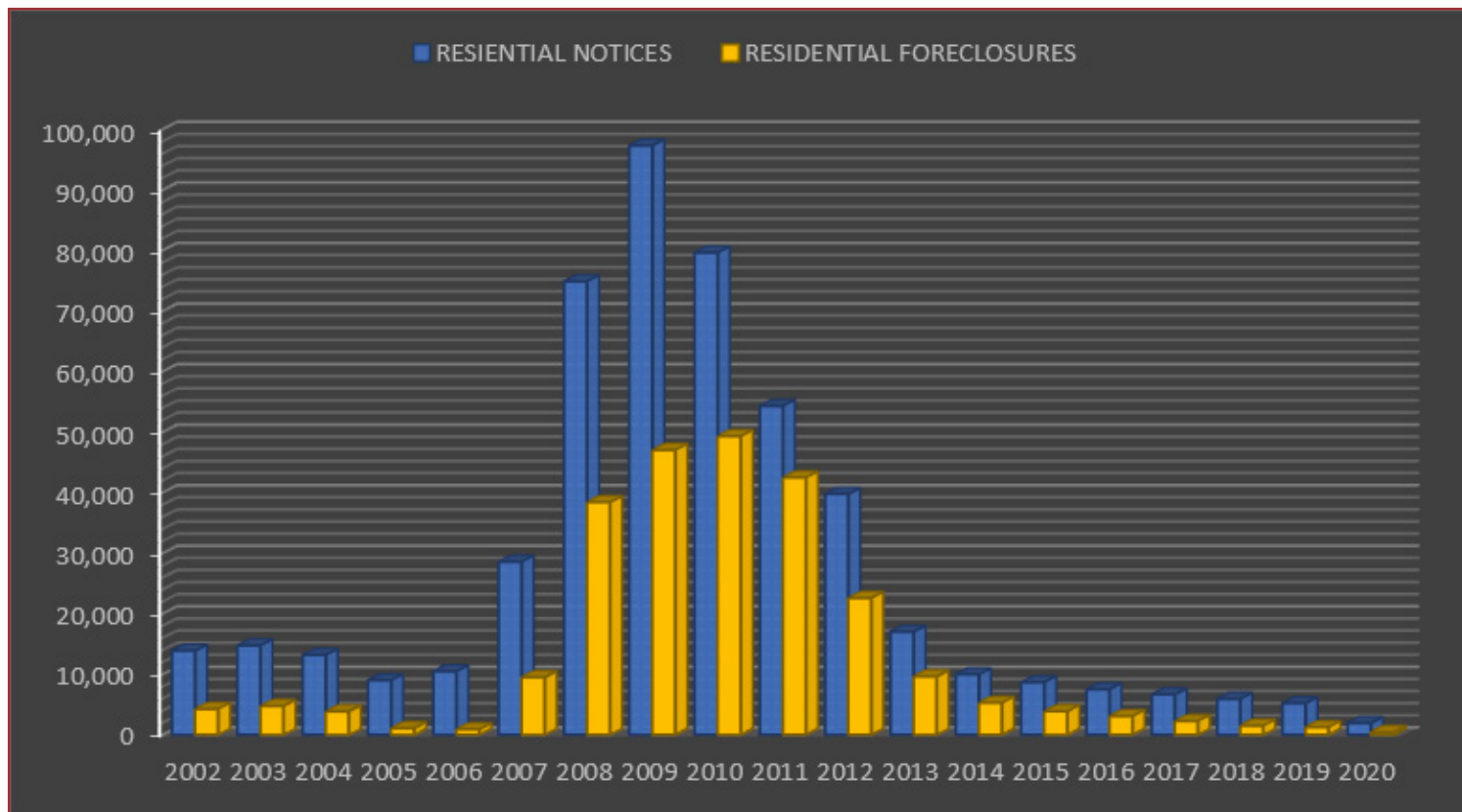
Foreclosures

On his first day in office, President Biden signed a bill to extend an eviction and foreclosure moratorium on federally backed mortgages. Following the executive order, the U.S. Department of Agriculture announced they would extend the moratorium for USDA Single Family Housing Direct and Guaranteed Loans through March 31. The U.S. Department of Housing and Urban Development also announced that they extended the moratorium through March 31, extending the original moratorium which began on March 18, 2020. It is undeniable that the moratorium reduced foreclosures in 2020, however, the moratorium was just one of the reasons foreclosures declined. Lower interest rates and rising home values also had an immediate impact on foreclosure activity.

COMMENTARY

BY TOM RUFF

For the 11th straight year the number of properties entering the foreclosure process and the number of homes that were foreclosed has declined. In 2020 the number of residential notices of trustee sales as well as the number of actual home foreclosures were the lowest in history. Of the 469 residential foreclosures in Maricopa County in 2020, 73% were purchased by third-party investors and 27% reverted to the beneficiary (bank). By the numbers, 343 were purchased by investors and only 86 reverted to the lender.



What does this mean for defaults once the moratorium is lifted? First, I do not believe another extension is out of the question. Second, when the moratorium is lifted it will lead to an increase in defaults, but nowhere near the tsunami some are predicting. Even if the moratorium is lifted in April, actual foreclosures could not occur until the second half of 2021. According to CoreLogic, Mortgage delinquencies are continuing a “slow retreat into pre-pandemic territory.” The CoreLogic Loan Performance Report for November puts the percentage of loans that were 30 or more days past due, including those in foreclosure, at 5.9%. While this is still 2 points higher than the rate in November 2019, it is the lowest overall rate since the initial surge in April of last year. The overall delinquency rate reached 7.1% by summer before beginning to improve.

The rate for early-stage delinquencies, those 30 to 59 days past due, was 1.4% in November, down from 2% a year earlier while adverse delinquency, loans 60 to 89 days past due, was unchanged year-over-year at 0.6%.

Loans that are seriously delinquent, 90 or more days past due or in foreclosure, are significantly higher than in November 2019, 3.9% versus 1.3%. However, it is also the lowest rate since June. CoreLogic points to this as a sign of increasing stabilization. The share of mortgages in process of foreclosure is 0.3%, down from 0.4% the prior November. This is probably an artifact of the foreclosure moratoriums that are still in effect.

The first place we would see an increase in default activity would be in the number of notices of trustee sales. We will closely monitor this metric and report any uptick as it occurs. Once the notice is filed the earliest any property can be foreclosed upon is 90 days. Even with the moratorium being lifted, the homeowners in default will still have multiple options.

When it comes to distressed properties, homeowners with equity have options. The amount of equity a homeowner has is the number one determinant in deciding whether their property is lost to foreclosure. The current rapid rise in equity will be the largest deterrent to future foreclosure activity. While we count foreclosures as they occur, the foreclosure itself is a byproduct of when the loan originated. In 2020, 45% of the foreclosures which occurred were still coming from 2005-2008 loan originations. In 2019 the “housing bubble” accounted for 46% of all residential foreclosures. In 2018 this metric was 55.4%. As you can see, the pig (housing bubble) is still moving through the python. Historically, and we are talking nearly twenty years ago, foreclosures would peak two to three years after origination. Over the last 3 years we have seen the median price home appreciate 17.3% in the last year, 8.9% in 2019 and 5.6% in 2018. The combined equity gains over the last three years coupled with all but certain gains this year offer recent homebuyers an added protection to combat foreclosures. Foreclosures might well rise in 2021, but this is only because foreclosure activity was so low in 2020. Without a complete collapse in home values, foreclosures will remain at historically low levels in 2021. Any help to our current supply issues from “distressed” properties will come from homeowners that have exhausted their forbearance options.

In conclusion, in 2021 we cannot expect either new construction or foreclosures to help remedy our current supply issues. Any increase in inventory will have to rely on market principles.

Pending Price Index

Last month the STAT mathematical model projected a median sales price for January of \$338,000. The January reported median was \$340,000. For the ninth straight month our mathematical model slightly underestimated our reported median sales price. Throughout 2020 our optimistic monthly projections repeatedly underestimated our current market strength. Looking ahead to February, the ARMLS Pending Price Index is projecting a median sales price of \$345,000.

We began February with 6,714 pending contracts, 4,256 UCB listings and 347 CCBS giving us a total of 11,317 residential listings practically under contract. This compares to 10,693 of the same type of listings one year ago. At the beginning of February, the pending contracts were 5.84% higher than last year. There were 19 business days in February of 2020 and 19 this year. ARMLS reported 7,279 sales in February of 2020. We should see year-over-year sales gains this February. The highest sales volume ever in February occurred in 2005 when ARMLS reported 7,781 home sales. The February sales volume should approach or possibly even exceed the volume in 2005.