

*\*\*\*Our annual spoiler alert\*\*\* This report is lengthy by normal STAT standards, and as the name STAT infers, there are a lot of numbers. For those of you not into that sort of thing, here's our annual tweet: "2017 was a very good year for housing and 2018 is projected to be even better."*

It's that time of year again. The 2017 numbers are in the books and it's time for our annual year in review. We're going to start by taking a quick look back at our quarterly reports and then follow up the three quarterly excerpts with a look at six key metrics in 2017.

## 1st Quarter

Our expressive phrase for quarter 1, "A cool top and a smoking hot bottom doesn't just describe my upcoming summer wardrobe, it's also an apt description of the current state of our resale housing market." By the end of March, the 2017 housing axiom was clear: price point, price point and price point. Ask any agent about 2017 and their description of the market will vary greatly based on the price of the properties they marketed.

The bottom third of the market, \$200,000 and less, was on fire characterized by rapid appreciation fueled by extremely low supply. The lower price points were best described as a full-blown sellers' market. By contrast, the luxury market favored the buyers. When it came to price point, 2017 filled out its dance card. It was a sellers' market in the lower price ranges, a balanced market in the upper mid ranges and a buyers' market at our highest price points.

## 2nd Quarter

By the end of June, STAT reported, "...the third highest sales volume in the 17 years we've been reporting sales numbers. The 49,181 sales reported in 2017 were less than only the 2005 total of 54,142 and the 2011 total of 53,896. We should not lose sight of the significance of the two years that surpassed this year's total. First, 2005 went down in the history books as the year our housing bubble rapidly inflated. Second, 2011 was the year housing prices bottomed out after the housing market collapse and cash investors began seizing the opportunity. This leaves 2017 as the very best year for valley resale homes in our history not influenced by some freakish market outlier." Traditional and first-time local buyers were driving our market.

When we combined the average sales prices with the average sales volume, we came up with the number most important to listing and selling agents: dollar sales volume. The dollar sales volume for the first half of 2017 was \$14,421,738,753, the second highest total ARMLS has ever reported. This compared to the record dollar volume of 2005 at \$15,247,743,200.

With the first half of 2017 sales data on the books, STAT noted, "When we report our final numbers for 2017, I suspect we'll see the fourth best sales volume numbers in our history. We had a very strong close to 2004 and we'll see the second highest dollar sales volume behind only 2005. Overall, 2017 is shaping up to be an outstanding year for ARMLS subscribers."

2017 was the 4th highest year in volume and second highest in dollar sales volume. The final numbers for 2017 sales volume and dollar sales volume are charted in the graph below.

Year	January	February	March	April	May	June	July	August	September	October	November	December	Total	Total	Rank
2001	3,700	4,609	5,704	5,833	6,244	6,164	5,638	5,728	4,801	4,766	4,761	4,466		62,414	15
2002	4,016	4,403	5,732	6,131	6,783	6,404	6,114	5,797	5,542	5,723	5,365	5,940		67,950	14
2003	4,760	5,493	6,545	7,464	7,468	7,495	7,680	7,688	6,868	6,541	5,693	6,357		80,052	11
2004	5,118	6,196	8,744	8,971	9,019	10,019	9,040	8,992	8,677	8,173	8,071	7,902		98,922	3
2005	6,632	7,781	9,987	9,600	9,890	10,252	9,394	10,031	9,213	8,046	7,350	6,549		104,725	1
2006	5,266	5,918	7,497	6,798	7,573	7,214	6,102	6,163	5,608	5,599	5,337	5,411		74,486	13
2007	4,389	4,958	5,990	5,535	5,795	5,438	4,730	4,358	3,435	3,457	3,318	3,420		54,823	17
2008	2,912	3,448	4,293	4,879	5,656	5,748	5,966	5,725	6,166	5,389	4,412	5,514		60,108	16
2009	4,742	5,477	7,636	8,564	9,284	9,327	9,095	8,007	7,906	8,119	7,494	7,657		93,308	5
2010	5,789	6,594	8,969	9,261	9,077	9,280	7,100	7,358	6,764	6,593	6,786	8,401		91,972	6
2011	6,541	7,157	9,933	9,331	9,809	11,125	8,387	8,712	7,892	7,563	7,146	7,840		101,436	2
2012	6,455	7,249	8,867	8,435	8,442	9,129	7,180	7,562	6,460	7,044	6,804	7,016		90,643	7
2013	5,828	6,630	8,136	8,754	9,436	8,228	8,216	7,055	6,314	6,041	5,206	5,969		85,813	9
2014	4,797	5,474	6,710	7,659	7,445	7,219	6,775	6,428	6,252	6,154	4,989	6,495		76,397	12
2015	4,784	5,990	7,900	8,367	8,319	8,674	7,914	7,010	6,935	6,304	5,311	6,741		84,249	10
2016	5,131	5,718	8,412	8,293	8,676	8,861	7,630	7,843	7,328	6,981	6,804	7,036		88,713	8
2017	5,932	6,435	9,116	8,666	9,641	9,391	7,853	8,113	7,328	7,268	7,074	7,070		93,887	4

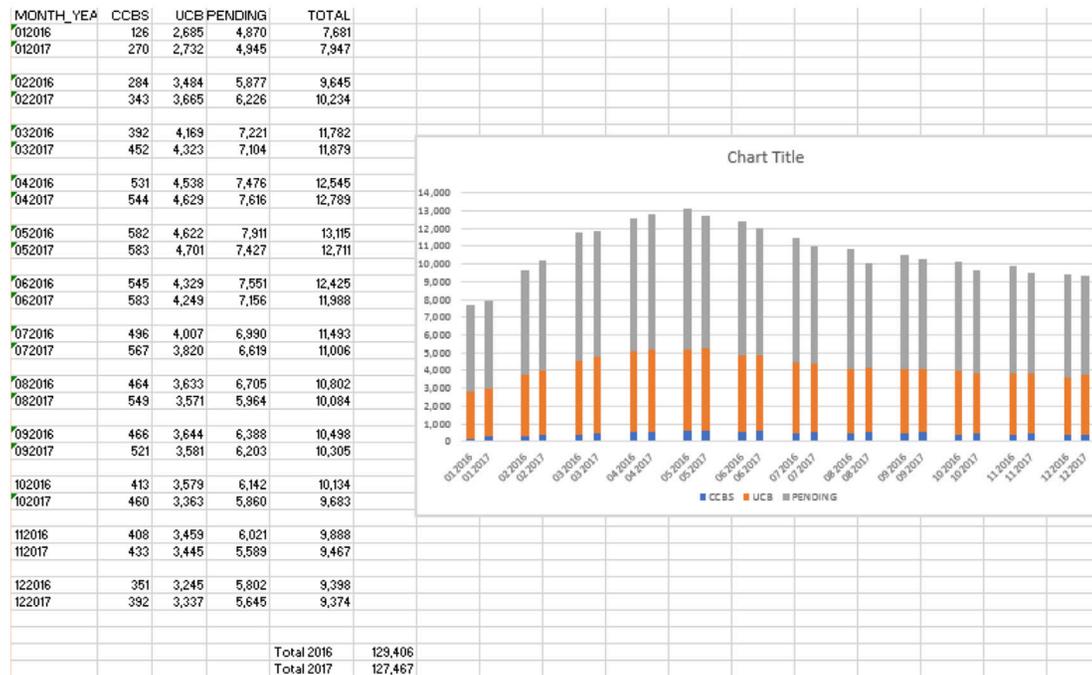
Year	January	February	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Total	Rank
2001	636,030,000	782,147,300	1,003,333,600	1,005,025,900	1,081,460,800	1,110,752,800	999,053,600	984,643,200	819,530,700	814,032,800	814,131,000	784,229,600	10,834,371,300	17
2002	739,345,600	749,390,600	1,015,710,400	1,103,580,000	1,242,645,600	1,205,232,800	1,145,152,200	1,053,314,900	978,717,200	1,045,019,800	993,598,000	1,095,930,000	12,367,637,100	16
2003	876,792,000	1,020,050,100	1,235,041,500	1,397,260,800	1,485,385,200	1,513,990,000	1,520,640,000	1,539,137,600	1,341,320,400	1,292,501,600	1,134,614,900	1,324,163,100	15,680,897,200	13
2004	1,054,819,800	1,263,984,000	1,858,100,000	1,873,144,800	1,939,085,000	2,323,406,100	1,992,416,000	1,996,224,000	1,949,721,900	1,888,780,300	1,877,314,600	1,872,774,000	21,889,770,500	6
2005	1,694,476,000	1,938,247,100	2,709,473,100	2,692,800,000	2,967,989,000	3,244,758,000	2,925,291,600	3,192,867,300	2,909,465,400	2,585,984,400	2,355,675,000	2,155,275,900	31,372,302,800	1
2006	1,774,115,400	1,976,612,000	2,478,508,200	2,237,221,800	2,614,199,600	2,511,193,400	2,027,694,600	2,041,801,900	1,819,796,000	1,848,789,800	1,804,973,400	1,809,438,400	24,944,344,500	3
2007	1,502,793,600	1,650,518,200	2,071,941,000	1,847,583,000	2,030,568,000	1,900,037,200	1,622,390,000	1,496,101,400	1,050,423,000	1,120,068,000	1,058,442,000	1,070,460,000	18,421,325,400	9
2008	912,620,800	1,010,608,800	1,259,136,900	1,354,410,400	1,523,726,400	1,520,346,000	1,486,894,248	1,361,656,900	1,350,286,174	1,144,219,425	902,584,900	1,063,694,712	14,690,185,653	15
2009	855,115,376	944,032,151	1,214,734,880	1,367,508,084	1,517,804,024	1,600,326,660	1,594,762,775	1,364,400,807	1,382,972,862	1,380,928,234	1,307,882,856	1,359,668,804	15,890,137,513	12
2010	1,017,185,190	1,146,498,780	1,598,150,234	1,586,418,561	1,607,827,164	1,670,000,960	1,250,601,100	1,207,131,406	1,081,049,536	1,076,656,679	1,079,177,580	1,347,797,633	15,668,494,823	14
2011	1,026,793,098	1,113,664,385	1,567,407,534	1,505,062,307	1,557,473,020	1,779,310,250	1,299,976,613	1,318,718,016	1,224,230,716	1,160,353,275	1,147,568,394	1,271,334,400	15,971,893,208	11
2012	1,081,057,580	1,207,871,874	1,601,892,173	1,596,003,220	1,728,195,588	1,774,020,312	1,406,247,484	1,444,635,825	1,287,943,004	1,431,146,340	1,396,213,440	1,485,287,200	17,440,514,040	10
2013	1,214,561,028	1,435,454,670	1,818,778,392	1,994,616,408	2,243,909,108	1,949,657,512	1,962,375,168	1,663,886,475	1,494,586,940	1,461,384,351	1,232,458,028	1,474,348,969	19,946,017,049	7
2014	1,164,366,216	1,326,981,178	1,669,710,680	1,919,077,335	1,842,019,565	1,849,681,056	1,691,886,875	1,600,456,296	1,596,710,488	1,525,484,290	1,252,338,780	1,675,073,490	19,073,686,249	8
2015	1,219,848,240	1,501,082,020	2,026,318,400	2,221,187,490	2,235,257,067	2,350,480,520	2,086,913,886	1,827,990,690	1,800,332,935	1,686,011,104	1,405,471,174	1,804,033,161	22,164,926,687	5
2016	1,386,160,174	1,554,632,712	2,252,287,764	2,252,727,106	2,447,013,744	2,504,331,264	2,081,151,170	2,163,813,113	2,053,144,384	1,979,169,348	1,908,290,664	1,979,761,536	24,562,482,979	4
2017	1,668,131,788	1,836,735,615	2,633,156,600	2,531,633,244	2,895,066,967	2,857,014,539	2,326,859,606	2,423,263,857	2,138,530,240	2,149,910,740	2,158,772,580	2,178,401,330	27,797,477,106	2

### 3rd Quarter

In September, STAT discussed the negative nature of nationally published housing reports, how these reports were based on NAR's pending home sales numbers and why we thought these reports were incorrect. Like the NAR report, we too were reporting year-over-year pending home sale declines. In fact, according to our numbers pending home sale contracts declined in year-over-year comparisons in each of the final eight months of 2017. However, while NAR interpreted these numbers as a weakening in home sales, STAT felt a new dynamic was coming into play.

The way in which agents were reporting their pending contracts had changed, and this change was responsible for the decline in pending home sale contracts. There used to be a strong relationship between the under-contract count and the monthly sales count the following month. In 2017, we saw a 1.50% decline in year-over-year pending contracts but a 5.82% increase in homes sold. When measuring demand, “pending sales” are a key metric. Until we “recalibrate” the relationship between pending contracts and the actual future sales they forecast, any year-over-year comparison between the pending numbers in prior years and the pending contracts in this year will underestimate our actual demand.

The previous charts showed our monthly sales volumes, while the following charts show the year-over-year shift in pending contracts. Eight out of 12 months showed a decline in “pending contracts” while 11 out of 12 months showed year-over-year gains when the actual sales numbers were reported.

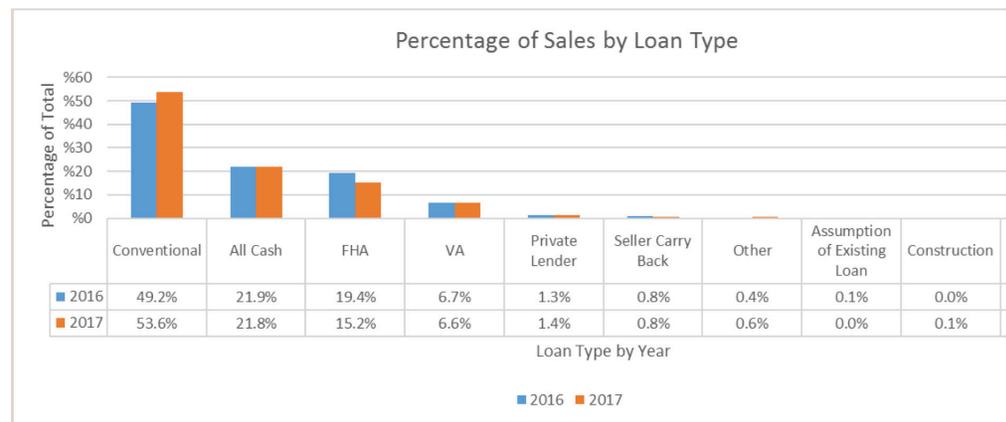
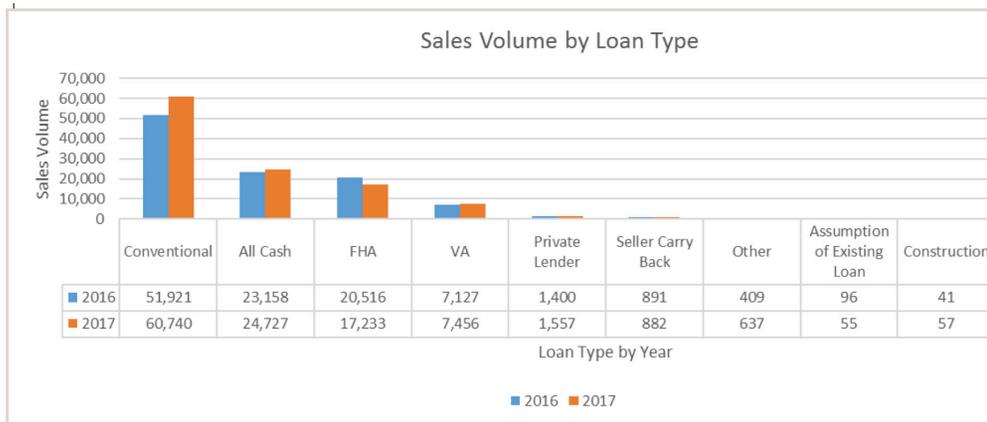


## YEAR END METRICS

### Financing

In 2016, 105,592 homes sold in Maricopa County (as reported by the Information Market based on public record). In 2017 the number of homes sold rose to 113,367. Reviewing the way purchases were financed throughout the year will give us insight into the type and quality of buyers driving our market.

We like to view financing from two angles: through the sales volume by loan type and again through the composition of sales by loan type. These summations are listed below. The two most noticeable changes took place with conventional and FHA loans. There were 8,819 more conventional loans and 3,283 fewer FHA loans made in 2017 compared to 2016. Cash buyers accounted for 21.8% of all purchases in 2017 compared to 21.9% in 2016. Translation: the same percentage of buyers are financing their purchases as in 2016. Of those financing their home purchases, a greater percentage of homebuyers chose conventional financing over FHA.



If we look a little deeper and compare our numbers to those of the Ellie Mae Origination Insight Report for December 2017, we see higher quality buyers in 2017. With a higher number of conventional and fewer FHA loans, this shift from FHA financing to conventional tells us conventional buyers had higher FICO scores, better debt to income ratios and put more money down than FHA buyers.

### *Profiles of Closed Conventional Purchase Loans*

#### CON-PUR

FICO	751	751	752	752	752	753	754	753	753	753	752	752	753	753	753	754	754
LTV	80	80	80	80	80	80	80	81	80	80	80	80	80	80	80	80	80
DTI	24/36	24/36	24/36	23/35	23/35	23/35	23/35	23/35	26/40	23/35	23/35	23/35	23/35	23/35	23/34	23/34	22/34

### *Profiles of Closed FHA Purchase Loans*

#### FHA-PUR

FICO	680	681	681	682	683	683	683	683	684	684	686	686	686	686	686	686	687
LTV	96	96	96	96	96	96	96	96	96	96	96	96	96	96	96	96	96
DTI	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/43	28/42	28/42	28/42	27/42	27/42

## Interest Rates

According to Mike Fratantoni, chief economist for the Mortgage Bankers Association, “The Mortgage Bankers Association projects that 30-year mortgage rates, which averaged about 4 percent in 2017, will increase to average about 4.5 percent in 2018. In a context of economic growth, a strengthening job market, and rising inflation, we’re forecasting that the Federal Reserve will increase short-term rates four times this year.” Here is Ellie Mae’s review of 2017 rates:

## Monthly Origination Overview for Closed Loans

	2017												2016				
	Dec	Nov	Oct	Sept	Aug	Jul	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sept	Aug
<b>ALL Loans</b>																	
ARM %	5.6%	5.6	5.5	5.5	5.7	5.7	5.9	6.1	5.9	5.6	5.3	5.4	4.6	3.9	4.0	4.0	4.1
30-Year Note Rate	4.28	4.24	4.20	4.21	4.27	4.25	4.27	4.33	4.41	4.39	4.36	4.31	4.05	3.81	3.76	3.75	3.77
<b>FHA Loans</b>																	
ARM %	0.6%	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2
30-Year Note Rate	4.31	4.26	4.22	4.23	4.27	4.25	4.25	4.29	4.36	4.32	4.28	4.23	4.02	3.77	3.74	3.73	3.75
<b>CONV Loans</b>																	
ARM %	6.3%	6.2	6.1	6.2	6.5	6.8	7.2	7.5	7.3	6.9	6.3	6.4	5.4	4.6	4.3	4.4	4.6
30-Year Note Rate	4.32	4.29	4.25	4.26	4.32	4.31	4.34	4.41	4.51	4.50	4.48	4.42	4.14	3.88	3.82	3.81	3.81
<b>VA Loans</b>																	
ARM %	0.2%	0.3	0.2	0.2	0.2	0.3	0.2	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.1	0.1
30-Year Note Rate	4.05	4.01	3.97	3.99	4.03	4.00	4.01	4.07	4.15	4.10	4.08	4.01	3.76	3.54	3.53	3.52	3.56

The average 30-year rate for all loans increased slightly to 4.280 in December, up from 4.240 in November.

## Foreclosures

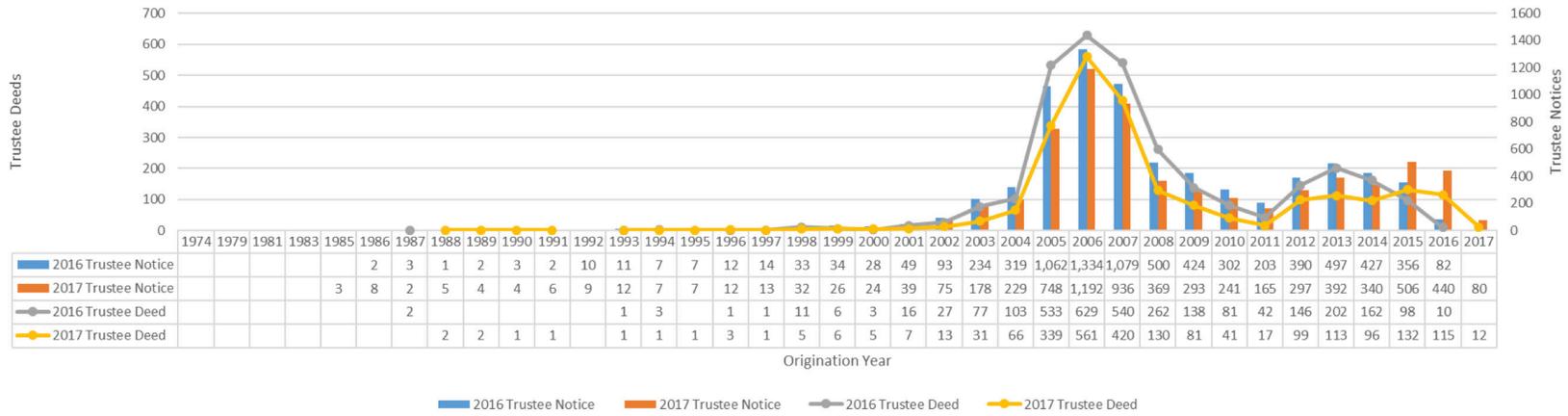
In Arizona, the first publicly recorded document in the foreclosure process is the notice of trustee sale. If the noticed property goes all the way through the foreclosure process, a Trustee's Deed will be recorded. I prefer the words "in foreclosure" to describe homes with an active notice and "foreclosure" to describe homes that were sold or reverted at auction. Even though foreclosures don't grab the same attention they did in 2009 thru 2013, they are still an important metric to watch.

Foreclosure activity in Maricopa County has been declining since 2009. That's eight straight years. And if my analysis is correct, 2018 will become the ninth. There were 7,520 notice of trustee sales filed on residential properties in Maricopa and 3,094 residential foreclosures in 2016. This compares to 6,694 notices and 2,302 recorded residential trustee's deeds in 2017. There were 11.0% fewer notices and 25.6% fewer foreclosures in Maricopa County in 2017.

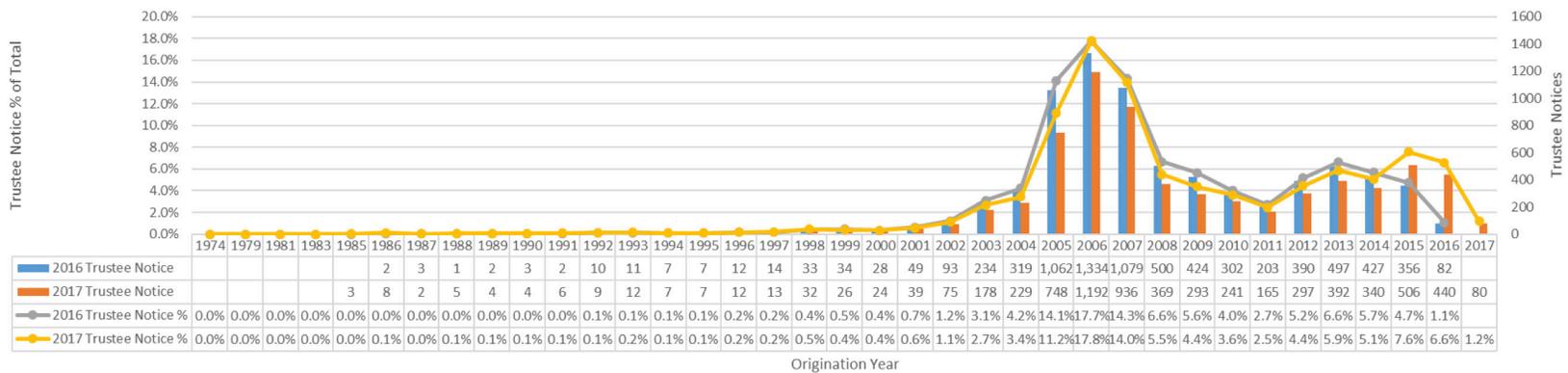
I have a couple of reasons why I believe foreclosures will continue to decline this year. First, as we just discussed, buyers put more money down on their purchases in 2017. Second, 2017 saw year-over-year appreciation rates of over eight percent between December 2016 and December 2017. Third, banks are following consistent and well based loan standards.

But the main reason I believe foreclosure activity will decline has to do with the fact most of foreclosures are still coming from the epicenter of the housing bubble. This pool of distressed homes has been the driving metric of forecloses for nearly a decade, and 2018 appears to be no different. The pool of bad loans during the bubble will eventually dry up, however, the lingering effects are still present. The chart below shows you the number of Notices and Trustee Deeds recorded in 2016 and 2017 based on the year the deed of trust being foreclosed on was recorded. Our reasoning for continued declines in foreclosure activity have been the same for the last three years.

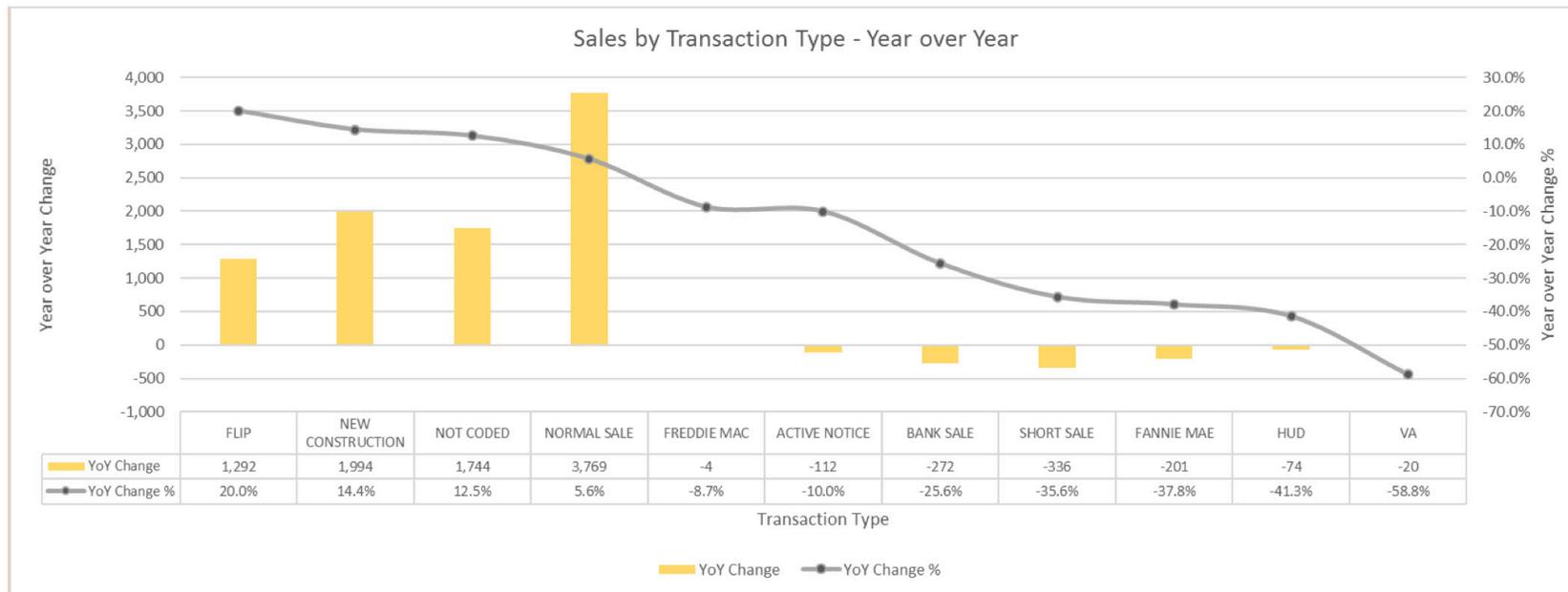
Trustee Notices and Deeds by Origination Year



Trustee Notice Counts and Percentage



## Sales Volume



Our market has followed similar trends for the last 4 years. We continue to see declines in distressed sales: properties with an active notice, bank owned, GSE and short sales. The largest volume increase in sales occurred in normal sales (non-distressed properties listed on the MLS). The largest percentage increase occurred with flips (homes purchased and sold again in a six-month window). Flips saw a 20% increase, which can be directly attributed to the two prominent i-Buyers in our market.

The sale of newly built homes increased 14.4% year-over-year. According to a monthly survey from the National Association of Home Builders called the housing market index, builder sentiment is five points higher in January 2018 compared to January 2017. Any reading above 50 is considered positive sentiment.

The HMI gauge of future sales expectations has remained in the 70s, a sign that housing demand should continue to grow in 2018. According to NAHB Chief Economist Robert Dietz, “As the overall economy strengthens, owner-occupied household formation increases, and the supply of existing home inventory tightens, we can expect the single-family housing market to make further gains this year.” For the purposes of this study we define Not Coded as non-distressed properties sold without a corresponding MLS listing.

## Pricing

Median sales price, average sales price and price per square foot are the three pricing metrics we track. Each of the three has their own strengths and weaknesses, and each can give varied responses at any point in time depending upon the “composition” of the sales being reported. When we compare the December 2017 average and median metrics to December 2016, and when we compare the annual price per square foot between January 1, 2018 and January 1, 2017, we come up with the following results:

Price appreciation as measured by the median sales price: 8.5%

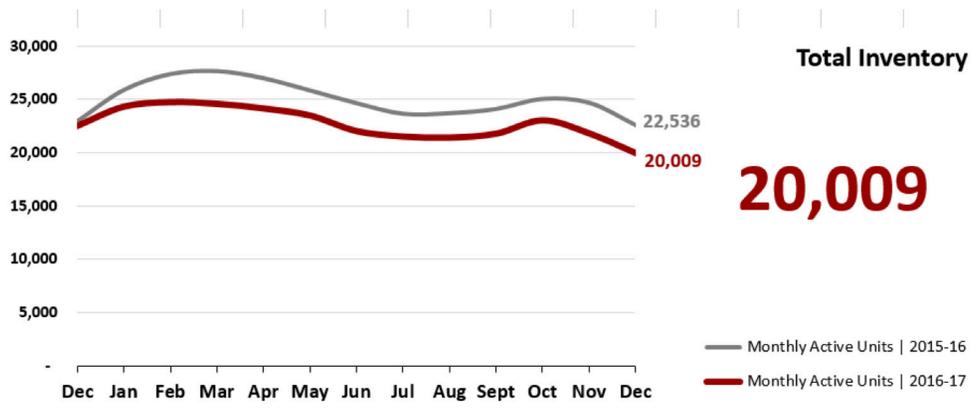
Price appreciation as measured by the average sales price: 9.5%

Price appreciation as measured by annual price per square foot: 8.2%

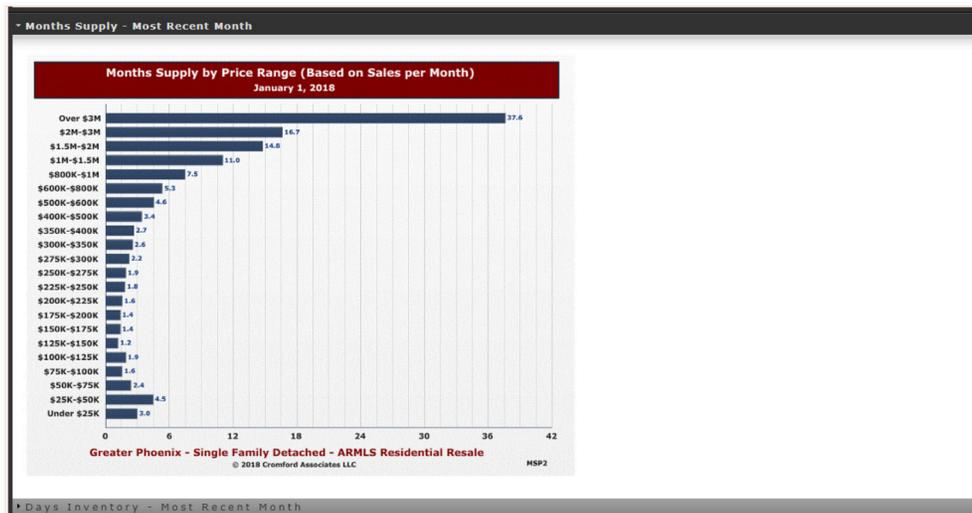
This is the one metric that exceeded my expectations, and the one metric I wished hadn't. Low supply plus steady demand translates into these percentage gains.

## Supply

We've discussed demand, now let's talk about supply. We begin 2018 with 11.2% fewer listing than at the outset of 2018 as shown in the chart below.



A complete breakdown of our current supply by price point as provided by the Cromford Report.



## Looking Ahead

Low inventory numbers, particularly at the lower price points in 2017, resulted in overall price increases of 8.5% in the median, 9.5% in the average price and 8.2% in the price per square foot. So, what happens in 2018? In early January of most years, everything is speculation. The one thing almost everyone agrees on is that with even fewer homes for sale this year, prices must go up. As an added note, if we see a 7.6% increase in our reported December median home price of \$246,125, we will match our peak median price set in June 2006 at \$264,800. I personally hope this doesn't happen, as a 2019 return to peak pricing would make for a much healthier market. But if it does occur, June is the most likely month.

There are two prevalent notions as to sales volume in 2018, one being low inventory numbers will lead to higher prices, and the higher prices coupled with rising interest rates will restrict demand leaving 2018's sales volume comparable or lower than 2017's. The second line of thinking centers around millennials being one year older and an improving economy in which case the single-family housing market will make further gains this year. I've always seen March as a bell weather month, at that time, we should have some indication of 2018's trajectory.

## The ARMLS Pending Price Index (PPI)

Last month STAT projected a median sales price for December of \$243,000 with the added caveat, "A repeat of last month's \$245,000 would not be out of the realm of possibility." The actual median sales price was \$246,225; exceeding even our higher expectations. We had projected home closings would be comparable to last year's total of 7,036, the final sales volume as reported by ARMLS was 7,070. There were 34 more sales this year over last. Looking ahead to January, the ARMLS Pending Price Index anticipates the median sales price will be \$245,000. It is quite normal for January's median to drop slightly.

Sales volume in 2017 was 5.82% higher than 2016, with 93,887 sales in 2017 compared to 88,713 in 2016. We begin January with 4,781 pending contracts; 2,692 UCB listings and 300 CCBS giving us a total of 7,773 residential listings practically under contract; this compares to 7,947 of the same type of listings one year ago. Projecting January's sales volume is always tricky, this year it is made even harder by the shift in the way pending sales are being or not being reported. We know we have fewer "pending" listings this year compared to last, however I'm not buying this will translate into fewer sales. The higher than expected price gains in the final quarter leads me to believe our market may be a little warmer than the "pending" contracts are indicating. Also, that whole Christmas on a Monday year ending on the 29th thing that took place tells me a few of the closing which could have closed last year got pushed forward. ARMLS reported 5,932 sales in January of 2017, our first finger in the wind forecast for 2018 calls for a January sales volume of 6,125.