2018 In Summation

Whenever I write our year in review, I always try to point out all the things I got right. It makes me feel better about myself. For instance, last month I guessed (I mean projected) there would be 6,500 sales in December. There were 6,403, which I knew but had simply rounded up. Which brings me to a conversation I had with Tina Tamboer in June. In my introduction I stated there were two opinions we had when entering 2018, one being low inventory numbers would lead to higher prices, and the higher prices coupled with rising interest rates would restrict demand leaving 2018's sales volume comparable or lower than 2017's. The second line of thinking centered around millennials being one year older and an improving economy in which case the single-family housing market would make further gains this year. The first opinion was Tina's. Me being a glass half-full guy, favored the second opinion. I believed in the millennials and if we had been discussing avocado toast sales, I'd have crushed her. But we weren't. We were talking home sales. In early January as ARMLS numbers reported, I received a phone call from Tina stating she'd won our bet. A good analyst will admit when they're wrong. Great analysts are never wrong.

Looking Ahead to 2019

As we head into 2019, we see tailwinds as well as headwinds for our housing market. We hear reports of population gains, a strong job market and increasing wages. I heard a local real estate expert with decades of knowledge and experience ask why volume isn't increasing with such a strong backdrop. He's right. We should be crushing it. Rising interest rates and rising prices have clearly softened demand and sale prices teeter on the top end of affordability. Several housing reports call the emerging trend for real estate in 2019 to be "unpredictable".

For example, Lennar homes has said it can't give a 2019 forecast because the market is so uncertain. "We continued to experience slower sales due to higher home prices and rising mortgage rates," Lennar's executive chairman said. And despite reporting strong fourth-quarter earnings, the home builder declined to offer guidance for 2019 “until the markets further define themselves.”

Maybe just a bit of the uncertainty has to do with the elephant and donkey in the room, a house divided against itself so to speak. This is where STAT separates itself from the others. We have no fear. We can cut through political rhetoric. We can take two halves of a house and make it one. STAT deals with fractional houses all the time.

So, what do we see for 2019? Let me begin by regressing. Below we’ve displayed the total median sales price spreadsheet from December, based on public record filings in Maricopa County. The chart will also show the quarters as well as the year-over-year percentage changes for each quarter. The median may confuse you a little bit at $274,000. Don’t let it. This is a report of all publicly reported sales, including new construction. It tends to be higher than the ARMLS reported median.

Total Median Sales Price Spreadsheet For Maricopa County

All	Total Median						
Date	Total Count	Low Qtr	Low Qtr Prev YearΔ	Middle	Middle Prev YearΔ	High Qtr	High Qtr Prev YearΔ
199912	7,346	$ 99,500	0.00%	$ 130,983	0.00%	$ 182,500	0.00%
200012	7,699	$ 104,000	4.52%	$ 138,000	5.36%	$ 193,000	5.75%
200112	8,266	$ 113,448	9.08%	$ 143,790	4.20%	$ 199,000	3.11%
200212	10,062	$ 120,000	5.78%	$ 152,491	6.05%	$ 212,566	6.82%
200312	10,880	$ 127,000	5.83%	$ 162,000	6.24%	$ 234,900	10.51%
200412	14,075	$ 148,173	16.67%	$ 190,000	17.28%	$ 272,000	15.79%
200512	12,885	$ 200,000	34.98%	$ 259,900	36.79%	$ 356,563	31.09%
200612	9,996	$ 215,000	7.50%	$ 265,000	1.96%	$ 371,000	4.05%
200712	5,883	$ 193,030	-10.22%	$ 247,405	-6.64%	$ 350,000	-5.66%
200812	6,080	$ 104,000	-46.12%	$ 160,000	-35.33%	$ 250,000	-28.57%
200912	7,820	$ 85,604	-17.69%	$ 140,000	-12.50%	$ 220,000	-12.00%
201012	6,979	$ 70,000	-18.23%	$ 122,000	-12.86%	$ 202,760	-7.84%
201112	7,802	$ 79,000	12.86%	$ 129,027	5.76%	$ 210,118	3.63%
201212	7,531	$ 111,500	41.14%	$ 168,903	30.91%	$ 269,000	28.02%
201312	6,685	$ 139,000	24.66%	$ 203,000	20.19%	$ 319,000	18.59%
201412	7,187	$ 146,000	5.04%	$ 210,000	3.45%	$ 310,000	-2.82%
201512	8,246	$ 164,000	12.33%	$ 230,000	9.52%	$ 321,510	3.71%
201612	8,685	$ 178,000	8.54%	$ 243,500	5.87%	$ 340,000	5.75%
201712	8,817	$ 194,000	8.99%	$ 256,000	5.13%	$ 356,000	4.71%
201812	8,168	$ 214,600	10.62%	$ 274,000	7.03%	$ 379,000	6.46%

The reason I show this chart is because I wanted to reference 2013. In August 2013, we saw a similar downturn to the one we are currently experiencing. The circumstances are completely different, but they feel similar. In August 2013 the large REIT's (Blackstone, Colony, American Homes, etc. pulled out of our market and left a considerable void. We had a lot of demand, almost pent up demand with all the former homeowners having been sent to the penalty box via short sales and foreclosures. From August 2013, our market transitioned from an investor's market to a market dominated by the traditional buyer. The market paused for about a year, but then regained traction.

So, what's this have to do with 2019? I think our market is going to experience a similar pause, not a downturn, a pause. Like Whitney, I believe the children are our future, it's time to let them lead the way. I may be one of the few, but I believe in the millennials. Unlike the swallows of San Juan Capistrano, they have their own time table. Their sheer numbers are undeniable, and they're about to make their presence felt. There are some very knowledgeable housing experts that have their doubts, but I believe it's just a matter of time. This could be a major miscalculation on my part, but I'm sticking to it. In 2019 I believe our market will pause and we'll see a decline in year-over-year sales volume as the millennials figuratively and literally transcend their basements and begin buying property.

So, how do I see 2019 unfolding? I would not be surprised if sales volume was 6-8% lower next year with a modest increase in prices. The 2% to 3% range, zero would be great. Why? Homebuilding analyst Ivy Zelman explains it best.

> *"At this point it feels like we're beyond the ninth inning in home price appreciation. We're cautious on the ability for home prices to continue to incrementally increase beyond low single digits. What we really need is for incomes to grow faster than home price appreciation."*

Next month in STAT we'll take our stethoscope and check the overall health of our market.

The Pending Price Index

Last month the STAT mathematical model projected a median sales price for December of $261,800. Our mathematical model for the first 11 months of 2018 had been underestimating the actual median sales price. The December median sales price followed our yearly pattern, reporting a median sales price of $262,000. ARMLS saw 6,403 sales this year compared to 7,070 last year. Our estimate of 6,500 sales overshot the actual sales volume by 97. Looking ahead to January, the ARMLS Pending Price Index anticipates the median sales price will hold steady, projecting a median sales price of $263,000.

Sales volume in 2018 was comparable to 2017, with 93,790 sales in 2018 compared to 93,887 in 2017. We begin January with 3,796 pending contracts, 2,295 UCB listings and 350 CCBS giving us a total of 6,441 residential listings practically under contract. This compares to 7,773 of the same type of listings one year ago. The pending contracts of this year are 17% lower than last year. There were 21 business days in January of 2018 as well as this year. ARMLS reported 6,082 sales in January of 2018. Sales volume will be lower this year, I'm guessing 5,450.