

Cromford Report – Daily Observations – August

August 16 - Once again we show the Cromford® Market Index table for the single-family markets in the 17 largest cities:

Rank	August 16, 2018	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Avondale	205.3	↓	-1%	206.7
2	Mesa	201.0	↓	-2%	205.3
3	Gilbert	191.9	↓	-8%	209.4
4	Chandler	188.5	↑	1%	186.1
5	Fountain Hills	178.3	↓	-7%	191.7
6	Surprise	171.1	↓	-3%	175.6
7	Glendale	166.4	↓	-5%	174.2
8	Queen Creek	164.9	↓	-3%	170.6
9	Scottsdale	162.3	↑	9%	148.7
10	Paradise Valley	161.3	↑	16%	139.2
11	Phoenix	154.0	↓	-1%	155.0
12	Buckeye	152.1	↑	2%	149.4
13	Maricopa	146.0	↓	-3%	151.1
14	Cave Creek	142.5	↑	5%	135.1
15	Goodyear	139.4	↓	-1%	141.1
16	Peoria	127.5	↓	-6%	135.6
17	Tempe	126.4	↓	-14%	146.2

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Only 5 cities improved for sellers over the past month, 3 of them in the Northeast Valley. Once again Paradise Valley and Scottsdale were the biggest gainers.

Avondale has regained its place at the head of the table despite losing 1%. The Southeast Valley has lost the dominance it held in the early part of the year, with Tempe (down 14%) and Gilbert (down 8%) the biggest decliners. Only Mesa remains above 200 although it went backwards by 2%. Chandler managed a 1% advance.

All 17 cities remain seller's markets, but 12 out of the 17 weakened for sellers.

August 15 - The total number of active listings (including those in UCB or CCBS status) is 19,736 today for all areas & types across the ARMLS database. This is just slightly above June 15, 2011 when we saw 19,696. We have to go all the way back to October 2005 to find another 15th date (19,715) with lower active listings.

Active listing counts have been on a declining trend since April 2014 when we hit a short term peak of 30,506. We would consider somewhere between 30,000 and 35,000 to be sufficient for a balanced market. The all-time record high for a 15th date is 58,195 in November 2007.

Even if we are hearing about signs of a fall in demand, mainly at a national level and in regions outside Arizona, supply is so low at the moment, demand would have to drop a lot more for us to reach a balanced (and smaller) market.

August 14 - Inspired by a question from Tracy Royce, we have created a new Tableau chart in Cromford® Public which allows you to examine the intended use stated on the Affidavits of Value by buyers in Maricopa and Pinal counties.

For the second quarter of 2018, the following breakdown is observed for Greater Phoenix as a whole:

1. Owner Occupier (Primary Residence) - 74.0%
2. Investor - 10.9%
3. Second Home - 10.7%
4. iBuyer - 3.2%
5. Unknown - 1.2% (mostly trustee sales)

Since iBuyers are acting as intermediaries and create one extra transactions than we would have seen without them, we concluded that the overall sales count is 3.2% higher than it would have been normally. Their share in 2Q 2017 was 1.7%, in 2Q 2016 was 1.3% and in 2Q 2015 was 0.2%.

We can see that iBuyers are not involved with home sales over \$500,000 nor with the new home market. Excluding those sales from the total, they currently have a 4% market share, up from 2.1% a year ago.

If we focus on the 55+ communities (both legally restricted and targeted by marketing), then we see a very different picture:

1. Owner Occupier - 64.0%
2. Second Home - 28.0%
3. Investor - 6.3%
4. Unknown - 1.0%
5. iBuyer - 0.7%

Since the iBuyer buying process is fairly passive, we conclude that the owners of 55+ properties are far less attracted to the iBuyer web sites than the average seller. We also see that investors show far less interest in 55+ homes than average. However 55+ properties are very popular as second homes.

Investors are far more active purchasing condos (16.6%) than single-family homes (9.8%)

iBuyers have tended to prefer the opposite with a 2.5% share in condo purchases and a 3.3% share in single-family purchases.

Top cities for the percentage of purchases by iBuyers in 2Q 2018 were:

1. Waddell - 10.6%
2. Tolleson - 9.5%
3. Anthem - 9.1%
4. Laveen - 8.0%
5. San Tan Valley - 6.1%
6. Glendale - 5.2%
7. Avondale - 4.9%
8. Surprise - 4.9%
9. Arizona City - 4.8%
10. Buckeye - 4.8%

August 13 - Sometimes it can be revealing to examine a market by breaking it into just a few large geographic areas. Below is a table of some key statistics for single-family homes comparing August 2018 with August 2017.

Area	Annual Change in Annual Sales Rate	Annual Change in Active Listings (excluding UCB/CCBS)	Annual Change in Days of Inventory
Central & North Valley	+2.4%	-1.5%	-5.3%
Northeast Valley	+6.3%	-16.3%	-19.7%
Pinal County	+4.2%	-16.5%	-19.8%
Southeast Valley	-0.1%	-16.3%	-16.3%
West Valley	+2.3%	-9.4%	-12.3%

For sellers, every area has seen an improvement, but the Central & North Valley has seen by far the lowest percentage reduction in days of inventory. This is primarily due to a very small drop (-1.5%) in active listings compared to the rest of the valley.

The Northeast Valley and Pinal County have both seen a big improvement for sellers with an almost 20% drop in days of inventory. Both had a large 16% decline in active listings without a contract while they both saw strong increases in annual sales, with the Northeast the strongest of all.

The Southeast Valley saw a similar fall in active listings to Pinal County and the Northeast, but the annual sales rate has not managed any growth. It therefore lags behind the other two areas in positive movement for sellers.

The West Valley managed a similar increase in the annual sales rate to the Central Valley but saw a more significant drop in active listings.

Ranking the areas by improvement for seller's prospects we have:

1. Pinal County
2. Northeast Valley
3. Southeast Valley
4. West Valley
5. Central & North Valley

It is surprising how different the areas are to one another and also how much the Northeast Valley has improved for sellers over the past 12 months.

August 10 - We have an unusually low number of listings under contract at the moment. Looking at the [weekly chart for all areas & types](#) we can see that in the last 10 years only 2008 and 2014 had lower counts at this point of the year. This is particularly unusual given that sales volume remains strong.

Certain cities have a significant shortfall of single-family contracts compared with last year:

1. Fountain Hills - down 41%
2. El Mirage - down 26%
3. Avondale - down 24%
4. Litchfield Park - down 21%
5. Surprise - down 19%
6. Sun City - down 18%
7. Tempe - down 17%
8. Glendale - down 16%
9. Chandler - down 15%
10. Casa Grande - down 15%

Fountain Hills had a large number of listings under contract in April, as many as 109, its highest count since 2012, but has slumped to just 41 as of this week.

Since the sales rates are holding up, you could argue that listings are closing more quickly or are being entered into ARMLS only after closing. This is certainly true of some listings, but since a drop in listings under contract is usually the first sign of a fall in demand, we are watching this situation closely. We suggest that you do too. As yet we are drawing no conclusions but we are wondering if the sales rate will follow suit over the next few months.

August 9 - The table below shows the Cromford® Market Index values for the single-family markets in the 17 largest cities by dollar sales volume.

Rank	August 9, 2018	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Mesa	203.0	↓	-2%	206.3
2	Avondale	201.9	↓	-6%	215.4
3	Gilbert	194.5	↓	-8%	211.7
4	Chandler	187.8	↓	-1%	189.1
5	Fountain Hills	181.1	↓	-2%	184.9
6	Surprise	172.7	↓	-2%	176.6
7	Glendale	170.5	↓	-1%	171.9
8	Queen Creek	166.9	↓	-2%	170.3
9	Paradise Valley	161.2	↑	26%	128.1
10	Scottsdale	160.6	↑	10%	145.5
11	Phoenix	154.9	↓	0%	155.6
12	Buckeye	150.1	↑	0%	149.8
13	Maricopa	148.3	↓	-2%	151.8
14	Goodyear	141.9	↑	3%	138.2
15	Cave Creek	141.6	↑	5%	134.9
16	Peoria	129.3	↓	-4%	134.6
17	Tempe	129.3	↓	-15%	152.6

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We again see a big divergence between the Northeast Valley and the rest of the market.

The Northeast Valley continues to improve for sellers with a 26% increase in the CMI for Paradise Valley over the last month and a 10% rise for Scottsdale. Cave Creek has also gained a healthy 5% but Fountain Hills has started to fade after a very strong run over the past 3 months.

The rest of the market is looking a little bit tired. All cities are still seller's markets, but every city outside the Northeast (except Buckeye and Goodyear) showed at least a slight move in favor of buyers over the last month. Much of the change is due to weaker numbers of listings under contract. Tempe has also gained supply faster than normally expected for the season. Tempe, Gilbert and Avondale were the biggest losers. The change was modest for Mesa, Chandler, Surprise, Glendale, Phoenix and Queen Creek.

Supply remains very low, but has started to show early rises between \$200,000 and \$400,000.

It is unusual that Mesa should be top of the table while its close neighbor Tempe has hit the bottom. We are living in interesting times.

August 8 - Zillow has now purchased 62 homes and sold 10. All are in Maricopa County and none in Pinal.

The average purchase price of the 10 homes that have been sold was \$309,700, which is just 0.4% below their average Zestimate of \$311,036. The average sale price was \$319,080, 2.3% higher than Zestimate. This means the average gross margin was 2.9%.

It took an average of 15 days to list the homes purchased, a further 23 days to get a contract and 20 days to close. These are lower numbers than the existing iBuyers (Opendoor and OfferPad), but remember we are only measuring the homes that sold, which by definition are the ones that sold quickly. There are plenty of homes that will take longer but are not closed yet.

Indeed, the first home purchased by Zillow is still active and has had no offers after 71 days and numerous Open House events. It has had 2 price reductions and is now on offer for \$415,000 (having been purchased for \$410,000). Zillow is offering an additional \$2,500 commission to the buyer's broker on top of the 3% already offered.

There are now 10 listings in UCB status (the other iBuyers always use Pending status). There are 24 Active with no contracts and 18 not listed yet.

Zillow has announced a huge reduction in its targets for home sales in 2018. Forecast revenue is now down from \$255 million to \$40 million. They stated to investors that home closings are taking longer than anticipated.

August 7 - Between 2014 and 2016 we saw a strong upward trend in the supply of luxury homes, particularly in the Northeast Valley. That trend came to a halt in 2017 and we are now seeing a downward move. On August 1, 2018 we counted 2,365 single-family active listings (including UCB and CCBS) across the Northeast Valley and priced over \$500,000. This is the lowest start-of-month count since September 2015 and is down 11% from a month ago and 8% lower than this time last year. The downward trend has gained momentum in the last 8 weeks.

Luxury buyers may have become used to having plenty of supply to choose from, and certainly supply is abundant compared with the market below \$500,000. However supply is dropping faster than for several years and as a consequence sellers are gaining significant negotiation advantage. This is reflected in the rise in the Cromford® Market Index numbers for Scottsdale, Paradise Valley and Fountain Hills.

We normally see an increase in active listings from September through November but this is unlikely to change the narrative. Buyers of luxury homes have had their best times (the spring of 2016 was the peak) and their search is likely to become trickier over the next few months.

August 6 - The [daily chart showing Average Annual Appreciation based on Monthly Average \\$/SF](#) has been unusually stable for the last 6 months. The appreciation rate (by this measure) has stayed very close to 8% with only slight dips to 7% and occasional surges towards 10%.

If home prices are rising by 8% a year, then they are getting much less affordable. Average incomes are rising by something like a quarter of this rate. Rents are also rising at a steep rate (see [this chart](#)). The cost of shelter is rising as a percentage of income.

The effect is to make existing home owners feel more wealthy since their equity is growing fast. However, the incentive for people to move up and the enthusiasm of first-time buyers is in gradual decline. We have a low Cromford® Supply Index because remarkably few people wish to sell their house. We also have a declining Cromford® Demand Index because fewer people are trying to buy. At the moment demand remains much higher than supply across most sectors, so it feels like we have strong demand. Do not be fooled. The CSI stands at 59.1, the lowest level since 2015, but the CDI is at 96.5, the lowest level since March 2015. This is a key reason why we do not have bubble conditions (in which demand rises artificially due to speculation).

August 2 - The table showing the Cromford® Market Index values for the single-family markets in the largest 17 cities appears below.

Rank	August 2, 2018	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Mesa	204.8	↓	-1%	206.1
2	Avondale	200.3	↓	-12%	228.5
3	Gilbert	198.4	↓	-7%	212.6
4	Fountain Hills	188.0	↑	6%	177.7
5	Chandler	186.0	↓	-4%	194.6
6	Surprise	173.5	↓	-2%	176.3
7	Glendale	172.1	↑	1%	171.0
8	Queen Creek	167.7	↓	-1%	168.6
9	Scottsdale	158.3	↑	11%	142.6
10	Paradise Valley	157.9	↑	32%	119.2
11	Phoenix	155.5	↓	-1%	157.2
12	Maricopa	150.0	↓	-3%	154.6
13	Buckeye	148.5	↑	1%	147.7
14	Goodyear	142.4	↑	7%	132.6
15	Cave Creek	138.9	↑	2%	136.3
16	Tempe	132.5	↓	-17%	158.8
17	Peoria	131.0	↓	-1%	132.9

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There is a surprising amount of movement here. First we should point out that every one of the 17 cities is a seller's market. However only 7 of the 17 saw improvement for sellers over the past month and 10 saw deterioration.

Once again the biggest moves upward came from the Northeast with Paradise Valley up a staggering 32% and Scottsdale up 11%.

The biggest decliners were Tempe down 17% and Avondale down 12%.

Mesa remains on top for the second week, even though it took a 1% hit over the month.

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