Cromford Report – Daily Observations – January

January 8 - We have just got a chance to study the affidavits that were filed in Maricopa County during December and they paint a much rosier picture of the housing market than we get from examining the ARMLS data. Why is this?

- new home sales are holding up far better than re-sales
- new home prices are gaining strength which is not reflected in MLS data since most new home sales are not in the MLS database

December's new home sales (single-family and condo / townhouse) totalled 1,544 which is up 10% from December 2017, while re-sales totalled 6,624, down 11% from a year earlier.

The median sales price of a new home in December was $349,990, up 6.6% from a year earlier

The median sales price of a re-sale home in December was $256,000, up 5.6% from December 2017.

This data suggests buyers are increasingly being attracted to new homes rather than the limited choice available for re-sale. They took 19% of the market in December 2018 while only managing 16% in December 2017.

January 7 - I have started to see a few writers claim that Phoenix is becoming a buyer's market. I think this is a huge stretch. It is possible that we have forgotten what a buyer's market really feels like. We have seen a noticeable downturn in demand but that alone does not constitute a buyer's market.

In a buyer's market, supply is higher than demand and currently we still have very low supply and little sign of a significant increase on the horizon. The weaker demand is still more than enough to match the current level of supply. Consequently sales prices still upwards momentum, although this has eased a little since last spring.

I also hear talk of lower prices, but this talk is not referring to closed sales prices. It refers to the fact that many sellers are adjusting their expectations and bringing list prices more in line with market conditions. This is not resulting in closed prices going lower than last year, as we would expect in a true buyer's market. In fact the average price per sq. ft. for listings under contract continues to hit new highs.

We have become used to a hot, growing market that strongly favors sellers and now that it is cooler, contracting in volume and moderately favoring sellers, we have a tendency to over-react and make more of the change than it really deserves. We have to stay calm and realistic and be guided by the numbers. These numbers look like a cooling off, not a downturn. We experienced a similar, though more severe, cooling off in 2013-2014, but the last significant downturn took place between late 2005 and 2009 and was followed by a 2 stage recovery from 2009 through 2013. There was also a mini-downturn in 2010-2011 which interrupted the recovery but had little lasting significance in hindsight.

There has been no decrease in loan approval rates and buyers have little to stop them apart from their own desires and perceptions. Many appear to think the current state of the market will mean lower prices for them if they wait to buy later. In this, they are very likely mistaken, but it will take time for them to realize this. Population growth in Central Arizona is still increasing faster than the number of homes. Despite a less friendly tax code since 2017, owning a home still makes better financial sense than renting unless you expect to own the home for less than 3 years. None of the conditions for closed prices to fall are currently in effect.

It seems more likely that demand will come back up, rather than more supply will appear out of nowhere. It is certainly possible that new facts come into play (e.g. interest rates) which could change the picture, but most measurements that impact the housing market are in normal to good ranges. Affordability has dropped below the ideal range but compared with neighboring California, we are amazingly affordable. 2019 is very unlike the situation in 2005, when almost every number was highly unusual and flashing danger signals, even though most of the population chose to ignore them.

As in most things, the numbers are more reliable that emotions. We will continue to report the natural numbers without adding any artificial ingredients.

January 5 - We have updated the Agent Production Table for 2018 to include all data in ARMLS as of January 4. You can find it here.

January 3 - Below is the regular table showing the Cromford® Market Index for the single-family markets in the 17 largest cities.

Rank	January 3, 2019	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	**Avondale**	185.3		13%	164.6
2	**Chandler**	169.5		6%	160.5
3	**Gilbert**	160.1		2%	157.0
4	**Mesa**	157.6		0%	156.9
5	**Glendale**	142.4		-3%	146.3
6	**Surprise**	138.7		-2%	141.8
7	**Maricopa**	136.6		6%	129.3
8	**Paradise Valley**	135.1		9%	123.8
9	**Scottsdale**	134.6		5%	128.0
10	**Phoenix**	134.2		2%	131.6
11	**Peoria**	130.6		9%	120.0
12	**Tempe**	130.2		8%	120.7
13	**Cave Creek**	126.6		-11%	142.9
14	**Fountain Hills**	125.4		-2%	127.5
15	**Queen Creek**	123.8		1%	122.9
16	**Goodyear**	120.1		-1%	121.5
17	**Buckeye**	116.3		3%	113.3

 CMR1

Despite the lower demand we have been experiencing the market index has improved in the majority of cities over the past month. Only 5 of the 17 are showing deterioration for sellers and only 1 of these is experiencing strong deterioration (Cave Creek).

Avondale, Paradise Valley, Peoria and Tempe are showing the largest monthly improvements, mainly thanks to lower inventory.

The average monthly change in the CMI is +2.6%, an improvement from +1.9% last week.

January 2 - We started 2019 with remarkably few listings in escrow. Across all areas & types in the ARMLS database we counted 17,339 active listings, 2,561 UCB or CCBS and 3,740 pending. This gives us a contract ratio of 36.34. Now January 1 is always a low point for listings under contract (pending + UCB + CCBS), but at 6,301, 2019 is down 17% from 7,583 last year and the lowest we have seen since since 2008 when we had an unbelievably weak 3,632 during the collapse of the bubble.

There is no doubt at all that this number will grow over the next few months, bit the real question is by how much. Sellers would like to see more buyers back in the game. Buyers seems suspicious that something bad is happening to the market, but the only bad thing is the fact that so many of them are holding back. If they stopped holding back, we would be back in a hot market once more. It is an unusual situation with both supply and demand far below normal. The big question is whether they are holding back by choice (fear) or because they cannot do anything at current prices (lack of affordability). Fear can be easily overcome, given time, but prices are not likely to move lower in the current circumstances. We would need a glut of homes to hit the market and there is no sign of that coming from anywhere. Employment remains strong and typical homeowners have plenty of equity. There are very few weak hands among the sellers, even though some investors may choose to take profits at this point..

If we look at the single-family sector by price range, we find the following change in the contract ratios:

Price Range	Contract Ratio Jan 2018	Contract Ratio Jan 2019	Change
$150K to $175K	88.3	68.1	-23%
$175K to $200K	91.1	63.5	-30%
$200K to $225K	75.5	55.6	-26%
$225K to $250K	67.4	52.2	-23%

$250K to $275K	62.6	45.5	-27%
$275K to $300K	60.9	45.5	-25%
$300K to $350K	52.8	39.4	-25%
$350K to $400K	40.3	35.8	-11%
$400K to $500K	37.1	32.0	-14%
$500K to $600K	34.1	25.2	-26%
$600K to $800K	28.6	25.5	-11%
$800K to $1M	21.6	17.6	-19%
$1M to $1.5M	14.1	14.8	+5%
$1.5M to $2M	12.0	9.4	-22%
$2M to $3M	7.4	12.9	+74%
Over $3M	8.6	5.6	-35%

Two price ranges are stronger than last year - $1M to $5M and $2M to $3M

The biggest percentage fall is for homes over $3M, which is not surprising given the antics of the stock market over the past 3 months. The price range up to $350K have all fallen by 23% to 30% which is a significant cooling off across a broad range of prices. The cooling effect is much less noticeable between $350K and $1M although for some reason $500K to $600K has dropped 26%.