

Cromford Report – Daily Observations – October

October 11 - The Cromford® Market Index table for the single-family markets in the 17 largest cities is shown below:

Rank	October 11, 2018	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Avondale	212.3	↑	2%	208.9
2	Chandler	183.9	↓	-6%	195.1
3	Gilbert	183.3	↓	-1%	186.0
4	Mesa	179.3	↓	-6%	189.9
5	Glendale	163.2	↑	7%	151.9
6	Cave Creek	157.0	↑	2%	153.9
7	Surprise	155.9	↓	-2%	159.5
8	Queen Creek	153.4	↓	-1%	155.3
9	Scottsdale	148.6	↓	-6%	158.8
10	Phoenix	148.6	↓	-1%	150.8
11	Tempe	142.3	↑	10%	129.3
12	Fountain Hills	140.9	↓	-14%	164.5
13	Maricopa	140.9	↑	1%	139.3
14	Paradise Valley	135.0	↓	-20%	167.8
15	Goodyear	134.4	↑	2%	131.7
16	Buckeye	127.6	↓	-15%	149.7
17	Peoria	124.7	↑	2%	122.7

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We see 7 cities showing an improvement for sellers and 10 deteriorating. This does not sound too bad until we calculate that the average change is -2.8%, considerably worse than last week's -1.9%.

Buckeye, Fountain Hills and Paradise Valley have seen the largest declines while Tempe was the only city to see a double digit percentage improvement.

Despite the shortage of new listings, active listings are growing because fewer homes are going under contract. Over the last month there has been a decline in the enthusiasm of both buyers and sellers.

October 10 - We are examining the first week of October in more detail to study how new listing counts dropped unexpectedly. We counted 2,017 new listings in Greater Phoenix during the first full week which is down dramatically from the same week in 2017. The overall decline is 23% year over year and this is the lowest number of new listings we have ever seen for the first week of October. The previous record low was 2,343 in 2014.

- Homes priced up to \$250K dropped from 1,147 to 764, a decline of 33%
- Homes priced between \$250K and \$500K dropped from 1,003 to 929, a decline of 7%
- Homes priced over \$500K dropped from 454 to 324, a decline of 29%

So the mid-range had the smallest decline while the top and bottom saw large falls in new listing counts.

If we chop more finely, we do see a handful price ranges with a growth in new listings:

- Up to \$25K increased from 5 to 6
- \$25K to \$50K increased from 7 to 8
- \$250K to \$300K increased from 319 to 351
- \$800K to \$1M increased from 43 to 45
- Over \$3M increased from 16 to 22

Segmenting by dwelling type we see:

- Single-family listings fell by 20%
- Condo listings fell by 33%
- Mobile home listings fell by 29%

Mortgage rates tend to increase when the economy is strong. According to realtor.com the average 30 year fixed loan in Arizona is now at 5.01%, up from 4.83% just 7 days ago. People usually worry about higher rates discouraging buyers and while that is a reasonable concern, I am also of the opinion that higher rates discourage sellers, because in most cases they are going to move somewhere else and pay a higher rate too. If they have the option to stay put, they may choose to do so when rates are increasing.

For whatever reason, sellers are surprisingly rare this month. Even if we change the measurement week to Oct 3 to Oct 9, the picture does not change - new listings down 25% from 2,520 in 2017 to 1,885 in 2018. This latter total is once again the lowest we have ever recorded for those dates.

We live in interesting times.

October 9 - Filing the latest version of the long term interest chart on Cromford Public, it struck me that mortgage rates have been climbing very slowly but somewhat relentlessly. Freddie Mac reported an average of 4.63% during September for the 30 year fixed. This is the highest we have seen since May 2011, more than 7 years ago. Of course in 2011 this seemed like a very low rate because we had experienced rates over 6% almost continuously between 1970 and 2008, with occasional short periods in the mid 5s.

Now we have a lot of homeowners with loans bearing rates of 3.5% to 4.25% taken out over the past 7 years. To move to a new home, they will need to pay off that cheap loan and take out another at closer to 5%. This effect is likely to be a drag on the supply of re-sale homes for a long time to come. It is likely to be good news for remodeling companies as many home owners decide to preserve their cheap financing by staying in place and spending their upgrade money on improving and modernizing their existing home instead.

October 8 - After the first full week of October it is striking that the month is off to an unusually slow start.

New listings are 14% lower than they were during the same period in 2017. It is a very long time since we saw a drop-off like that.

Closed sales are also down, with 1,338 closed during the first week of October 2018, down over 10% from the 1,494 we had in 2017. The annual sales rate has taken a step lower as a result.

It is not exactly clear what is causing this, but both supply and demand are weaker than expected. One week does not make a trend, but this is so different from what we have seen so far this year that I feel I should point it out. If the rest of the month continues in this vein then it would represent a significant change of sentiment.

We will watch carefully and report whether the second week is similar to the first or gives us a snap-back to normal.

October 5 - Until September we had seen extremely strong sales numbers for the Northeast Valley's luxury single-family homes (over \$500,000). Here are the comparisons with the year before:

Month	Sales	Year Earlier	Change
December 2017	374	292	+28%
January 2018	354	265	+34%
February 2018	336	268	+25%
March 2018	549	454	+21%
April 2018	504	426	+18%
May 2018	590	504	+17%
June 2018	534	504	+8%
July 2019	438	352	+24%
August 2018	447	348	+28%
September 2018	314	338	-7%

The wheels seem to have come off the cart last month. Could we have seen this coming. Yes!

The under contract count on September 1 was down 2% from the year before, suggesting that year over year growth would stall. Now September 2018 had only 19 working days and thus a 5% disadvantage compared with September 2017. Adding that 5% to the 2% drop in under contract listings we get -7%, exactly the drop in sales during September.

It does not always work this cleanly. What do we expect for October? Well the under contract count is almost identical to 2017 as of October 1, so we would anticipate roughly the same unit sales, adjusted for the number of working days. October 2018 has 23 working days compared with October 2017's 22, so this will add 5% to our estimate. We should therefore expect a resumption of sales growth this month, but only 5%, unimpressive in the context of the last 10 months.

The lack of sales is concentrated at the bottom end between \$500,000 and \$600,000, where unit counts fell 32% from a year earlier. This is probably connected to the shortage of supply since active listing counts are down 21% in this price range.

October 4 - The table below shows the Cromford® Market Index for the single-family markets in the 17 largest cities

Rank	October 4, 2018	Cromford® Market Index Now		Chg	Cromford® Market Index Last Month
1	Avondale	214.3	↑	3%	208.6
2	Chandler	187.3	↓	-3%	194.0
3	Gilbert	186.2	↓	0%	186.9
4	Mesa	181.9	↓	-6%	192.8
5	Cave Creek	160.6	↑	8%	148.7
6	Glendale	159.9	↑	4%	154.0
7	Surprise	156.4	↓	-4%	163.1
8	Queen Creek	153.6	↓	-2%	156.8
9	Scottsdale	151.2	↓	-6%	160.5
10	Phoenix	149.3	↓	-1%	151.4
11	Paradise Valley	148.2	↓	-10%	164.5
12	Tempe	143.2	↑	14%	125.6
13	Maricopa	143.1	↑	3%	139.4
14	Fountain Hills	141.2	↓	-18%	173.2
15	Goodyear	136.4	↑	2%	133.2
16	Buckeye	132.8	↓	-13%	153.3
17	Peoria	123.8	↓	-1%	124.5

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We have 6 cities showing an improvement for sellers, 2 more than last week, with Glendale and Goodyear joining the other 4. However 11 cities showed deterioration for sellers and the average monthly change was 1.9%, slightly higher than the 1.8% we recorded last week. The trend remains down with rising supply and falling demand.

Tempe was the standout city for improving selling conditions while Fountain Hills, Paradise Valley and Buckeye showed significant weakness.

October 3 - Although Zillow has ramped up its purchases as an iBuyer, it has sold relatively few homes so far. The total number of homes purchased by the end of September was 157 while the total number of sales was 33, leaving 124 in inventory.

When we compare with Opendoor's start-up in 2015 and 2015, we see a similar pattern. By July 2015 they had 132 homes in inventory, having purchased 169 and sold 37. The main difference was that it took Opendoor 12 months to reach this stage and Zillow has taken less than half this time. The first mover has to prove the concept and break rocks. Followers benefit from that ground-breaking.

OfferPad has a somewhat different trajectory. They have tended to keep a lower inventory and sell their homes more quickly. By the time they had purchased 154 homes (in July 2016, they had sold 64 and only had 90 left in inventory.

Lifetime statistics as of the end of September are:

	Opendoor	OfferPad	Zillow
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Purchases	5,945	2,175	157
Sales	5,063	1,893	33
Inventory	882	282	124

October 2 - Based on affidavit filings, the 3 main iBuyers operating in Greater Phoenix purchased 358 homes across Maricopa and Pinal counties in September. This is down from 446 purchases in August, but up from 278 in September last year.

Opendoor only purchased 188, making it their quietest month for purchases since September last year when they bought 161.

OfferPad purchased 105, in line with recent months but down from 117 in September 2017.

Zillow purchased 65, their largest total since starting in May. They seem to be stealing some market share from the other 2, possibly because they are buying at slightly higher prices. Certainly they are making less gross margin when they sell. The median gross margin for Zillow was 5% in July but only 3% in August. We have not yet been able to calculate the September number. Their 3% gross margin is immediately eaten up by commission paid to the buyer's broker, so they are living off the seller fees, to which we do not have access. This iBuyer business clearly involves a large amount of capital tied up and seriously low margins. Some may question why Zillow wishes to engage in the market, but it does seem to be growing in popularity with sellers. iBuyer transactions now represent roughly 1 in 20 home sales (excluding new homes and foreclosures).

Gross margins for Opendoor were around 6% in August and for OfferPad around 8%. Both of these are down from 8% and 11% respectively in August 2017. The additional competition seems to be causing gross margins to tighten.

September was a low activity month with only 19 working days thanks to a weekend at both ends. All the sales counts will be lower than normal for this reason.

October 1 - Nate Randleman used our Tableau chart showing average \$/SF over the long term to calculate how prices had appreciated over the past 18 years. For Maricopa County the average was \$97.63 in September 2000 and it was \$166.51 in September 2018. The difference between these 2 numbers represents a long term average appreciation rate of only 3%.

Nate believes most clients (and probably many agents) would expect the number to be much higher since we have experienced very positive appreciation since 2011. They sometimes forget how much we went backwards between 2000 and 2011. We have spent much of the time since 2011 recovering from the crash of 2007-2008.

Overall, a long term appreciation rate of 3% is far from excessive and supports the theory that we are not significantly over-valued at today's prices.

What Nate did not know is that this Long Term Appreciation rate appears in all of our snapshots, so he could have saved himself some calculating. Here are the numbers extracted from a few of our snapshots (there are well over a hundred on the site). It may be that many of these will surprise you.

Market Segment	Sub-set	Long Term Appreciation (Jan 2001 - Sep 2018)
All Area & Types in ARMLS		2.9%
Single-Family Detached	Anthem	2.5%
	Apache Junction	3.1%
	Arizona City	2.4%
	Avondale	2.8%
	Buckeye	3.1%
	Carefree	2.1%
	Casa Grande	1.9%
	Cave Creek	3.0%
	Chandler	3.5%
	Coolidge	3.2%
	El Mirage	3.3%
	Eloy	5.9%
	Florence	2.6%

	Fountain Hills	3.1%
	Gilbert	3.3%
	Glendale	3.4%
	Gold Canyon	2.4%
	Goodyear	2.4%
	Laveen	0.8%
	Litchfield Park	2.1%
	Maricopa	1.6%
	Mesa	3.6%
	New River	2.3%
	Paradise Valley	2.5%
	Peoria	3.5%
	Phoenix	3.6%
	Queen Creek	1.5%
	Rio Verde	2.3%
	Scottsdale	3.4%
	Sun City	3.4%
	Sun City West	3.1%
	Sun Lakes	3.3%
	Surprise	2.6%
	Tempe	3.7%
	Tolleson	2.5%
	Tonopah	1.7%
	Waddell	1.6%
	Wickenburg	2.4%
	Wittmann	4.3%
	Youngtown	3.4%

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