

## Market Summary for the Beginning of May

The market remains extremely active with 9,106 sales closed in April through ARMLS for all areas & types. This is 2% higher than March and 7% higher than April 2009. Pending listings total 14,479 at the time of writing, with 8,021 active listings under contingent offer (AWC), making a total of 22,500 listings under contract. The all-time record level of under contract listings was set on April 28 (23,348) just before a large number of closings in the last 2 days of April. As we predicted last month, this easily beat the previous record set in March.

So demand clearly remains strong, except at the luxury end of the market, and supply has declined noticeably, especially in the last week. All other things being equal, this should lead to higher pricing in the medium term. In the recent past, however, prices moved in the opposite direction. Overall sales pricing (in \$/SF) weakened during April, but remains some 6% above levels set 12 months ago when lender-owned properties dominated the market to a much greater extent. The current weakness has all three categories declining in price during April. REOs declined by 3.2%, short sales & pre-foreclosures by 1.8% and normal sales by 4% compared with March. Despite the sharpest decline for several months, the pricing of pending listing suggest that this declining trend will reverse a little in May and we expect price per square foot to edge back above \$90 again. At the moment we see no strong consistent sales price momentum either downwards or upwards.

The most significant risks to the market lie in events that decrease demand from the current high level. Two obvious short-term factors exist that could potentially have this effect are:

- the end of the \$8,000 tax credit for home-buyers
- the possible repercussions of the new Arizona state immigration law S.B. 1070

Since pending listing levels are unusually high we should probably assume that this is at least partly due to the government's tax incentive. Contracts signed after April 30 will not be eligible for this incentive, so we must watch for any significant or unusual weakening of this pending number during May and June.

The effects of the new immigration law are going to be tricky to measure, but purely from a housing market perspective, the consequences seem more likely to be negative than positive. The law is designed to cause undocumented aliens to leave the state, either voluntarily or by force. Estimates are that there are several hundred thousand undocumented aliens residing in Arizona. If the law has the intended effect and these people do leave the state, then both population and demand for housing will probably decline. Two other factors could possibly add to this effect. Firstly, if certain sectors of the population feel victimized or less welcome even though they have legal residency, they may choose to move voluntarily to another state that doesn't seem likely to implement the same kind of laws. This is probably particularly significant for families who have some members who are citizens or legally resident and others who are not. Secondly, it is possible that out-of-state or out-of-country buyers who might normally purchase a home, vacation or investment property in Arizona may choose not to, either due to a conscious decision to boycott the state, or simply because the market seems less likely to expand. Since we track the addresses of new real estate buyers we should be

able to detect this effect (if it exists) over the next several months. The same applies if the law turns out instead to have the opposite effect and attract an influx of new residents who move here in support of the new laws. Either way we should see changes in the number and/or location of out-of-state buyers. We will have to wait and see, but even if the law is put on hold due to possible legal action, its immediate consequences could be quite significant on the housing market. [Full disclosure: the author is a resident, legal alien, and as such has no vote and takes no part in Arizona politics. My focus here is on the economic effect of the law rather than the arguments for and against it]

New notices of trustee sale were quite light in April compared with the last two years, with 7,061 notices, 22% fewer than April 2009. Trustee sales declined 20% from the very high level they reached in March 2010, but they were up 43% compared with April 2009. You would therefore expect the number of pending foreclosures to decline and the number of REOs to increase. You would be right on the first count, but wrong on the second. Pending foreclosures are declining quite fast now and at 46,834 are 9% below the level at the turn of the year. However the high volume of foreclosed properties is not causing the number of REOs listed on ARMLS to rise. In fact we currently see only 5,083 which is just 42 day's inventory. It appears that some banks are introducing new processes for the disposal of REOs and we intend to report on this in a later article.