

Sharp Drop in Demand Following Expiry of Tax Credit

The government incentive tax credit for house purchases required that the contract be signed by April 30, 2010 for the buyer to be eligible. The resulting sale could close any time up to June 30, 2010 and it now seems very likely that this deadline will be extended. This will particularly help those involved in short sale situations.

Sales numbers will not be affected immediately by the loss of this incentive. By April 30 we had seen a big build up of buying interest and therefore very high levels of both pending listings and AWC (active with contingent contract) listings to generate closed sales during May and June. So we have seen only very modest sales volume declines over the following two months. However the fall-off in pending and AWC listings during June has been more dramatic, as can be seen in the [Weekly Pending Listing Chart](#). This means two things:

1. Sales volumes will probably drop lower for the third quarter.
2. A change in market balance with demand likely to fall below supply for the first time since May 2009 making the situation less favorable for most sellers than it has been for the past year.

Looking at the various cities we see the following:

City	Pending 4/30	AWC 4/30	Pending 6/21	AWC 6/21	Under Contract Change
Anthem	117	82	77	68	-27.1%
Apache Junction	142	65	94	61	-25.1%
Arizona City	63	15	44	15	-24.4%
Avondale	332	179	267	189	-10.8%
Buckeye	381	234	346	177	-15.0%
Carefree	9	5	8	9	+21.4%
Casa Grande	188	77	148	66	-19.2%
Cave Creek	93	66	67	80	-7.5%
Chandler	638	392	483	398	-14.5%
Coolidge	64	21	58	23	-4.7%
El Mirage	179	121	143	98	-19.7%
Eloy	14	8	11	6	-22.7%
Florence	98	42	80	33	-19.3%
Fountain Hills	73	25	63	22	-13.3%
Gilbert	795	520	659	538	-14.9%
Glendale	729	353	582	339	-14.9%

Gold Canyon	58	28	44	19	-26.7%
Goodyear	348	217	260	207	-17.3%
Laveen	266	176	214	157	-16.1%
Litchfield Park	136	77	108	82	-10.8%
Maricopa	410	275	305	265	-16.8%
Mesa	1,086	564	816	505	-19.9%
New River	34	25	27	20	-20.3%
Paradise Valley	40	31	48	28	+7.0%
Peoria	577	327	472	341	-10.1%
Phoenix	3,115	1,476	2,349	1,380	-18.8%
Queen Creek	790	485	564	442	-21.1%
Rio Verde	9	1	6	3	-10.0%
Scottsdale	690	417	614	395	-8.9%
Surprise	645	404	545	363	-13.4%
Sun City	149	46	100	51	-22.6%
Sun City West	116	20	49	12	-55.1%
Sun Lakes	44	11	22	10	-41.8%
Tempe	167	107	139	89	-16.8%
Tolleson	214	100	174	87	-16.9%
Waddell	47	18	40	22	-4.6%
Wickenburg	20	3	9	4	-43.5%
Wittmann	23	5	17	3	-28.6%
Youngtown	25	22	24	18	-10.6%

What can we deduce from this table?

The largest declines were in the 55+ areas, but this is mainly due to a special seasonal effect which is unique to these types of communities and happens every year. Summer is always a very quiet period in these communities. This year the effect is even more pronounced.

The outlying areas were also disproportionately affected: Anthem, Apache Junction, Arizona City, Casa Grande, Eloy, Gold Canyon, New River, Queen Creek, Wickenburg and Wittmann all showing a fall in listings under contract of over 20%. What do they have in common? They are a long way from downtown Phoenix. Not every distant community was affected however; note Coolidge, Florence, Rio Verde and Waddell.

Note that two areas had an INCREASE in listings under contract: Carefree and Paradise Valley, the two most expensive cities in the valley. Clearly the end of the tax credit had no negative effect here. In fact

the top end of the market continues a improving trend in demand that has been in place for over a year now.

The Cromford Market Index™ has so far only dropped from 110 on May 22 to 103.4 on June 21. But the rate of decline is quite steep and it is almost all due to loss in demand rather than the small increase in supply over that period. What we don't know is whether this downward trend will continue or stabilize but at the moment we can only observe that it is significant.

Clearly the incentive brought forward sales into the spring which would otherwise have either not happened at all or have happened later. It is also possible that demand has fallen due to other factors, although it is difficult to measure this since the effect of the incentive is currently overwhelming other market factors. It is too early to tell if the underlying demand has fallen very much if at all. However, even with the steep fall, pending listings remain at a high level compared with all prior years except 2009.

Will this drop affect pricing? Not in the short term. Sales pricing is very much a trailing indicator and at the moment pricing is hitting a short term peak around \$93 per sq. ft. However the mix of homes among the pending listings has changed and this changing mix will probably cause average pricing to fall over the next 30 to 45 days to around \$89 to \$91 per sq. ft. This is mainly because the pending sales contain an unusually large proportion of short sales (37.2% compared with 31.8% a month earlier) and fewer normal sales (25.0% versus 29.7%). In addition August is usually a very weak month for pricing, so we anticipate price declines throughout the next 60 days.

Which direction we go after August will depend on what the market balance looks like after the effects of the tax credit have worn off. If the Cromford Market Index™ falls below 90 and stays there then we can expect sales pricing to weaken. If remains above 90 and/or starts moving upwards again, the pressure on sales pricing will probably remain neutral to positive as it has been since April 2009.