

The State of Our Housing Market

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Welcome to 2018! Now that we are off to a fresh New Year, it makes sense to note where the market currently stands.

Supply

Undoubtedly our serial readers are already well aware that the \$500K and under range has been in a “sellers” market for all of 2017. What most may not know is that inventory usually sees a buildup in the fall as demand tapers off.

Fall 2017 saw a very minimal increase in inventory. The under \$200K single-family supply was so paltry it seemed to be headed for extinction. Entering 2018, Active Listings are down 12 percent from this time last year. There appears to be no relief on the horizon.

As our favorite real estate market watcher [The Cromford Report](#)* states: *It is easy to get complacent about the low inventory and assume that this is somehow the ‘new normal’. The long-term decline in Active Listings just keeps going and we have now reached the point where days of inventory is the lowest we have seen for Week 50 since 2004...To try to get a handle on what life is like in the regular market, let us focus on homes priced at under \$500,000 in Greater Phoenix. The inventory for this segment is 52 days. If we use \$250,000 as the price limit we have just under 40 days of inventory. These are not normal readings and we start to wonder how low can these numbers go.*

This means buyers are going to have an even tougher time buying than last year in any price range other than luxury. For most sellers, they should enjoy competition from buyers and stronger pricing.

Demand

Demand has remained relatively stable and unremarkable, especially compared to its counterpart supply. Demand was on a weakening trend in the 3rd Quarter, but that seemed to shift upwards mid-November and certainly provided a busier than normal December. An interesting side note is that buyers are now primarily in-state buyers (i.e. local house changers). The Cromford Report notes:

Migration into Arizona is weaker than it was during the 2000-2007 era. In 2004, we saw 30,564 purchases by out-of-state buyers. 2017 year-to-date is 16,443...The total sales count is lower and the percentage of sales going to out-of-state buyers has dropped from 20% to 16%...The flip side of this is that in-state demand has increased from 80% to 84%. Areas that appeal most to in-state buyers have seen stronger appreciation.

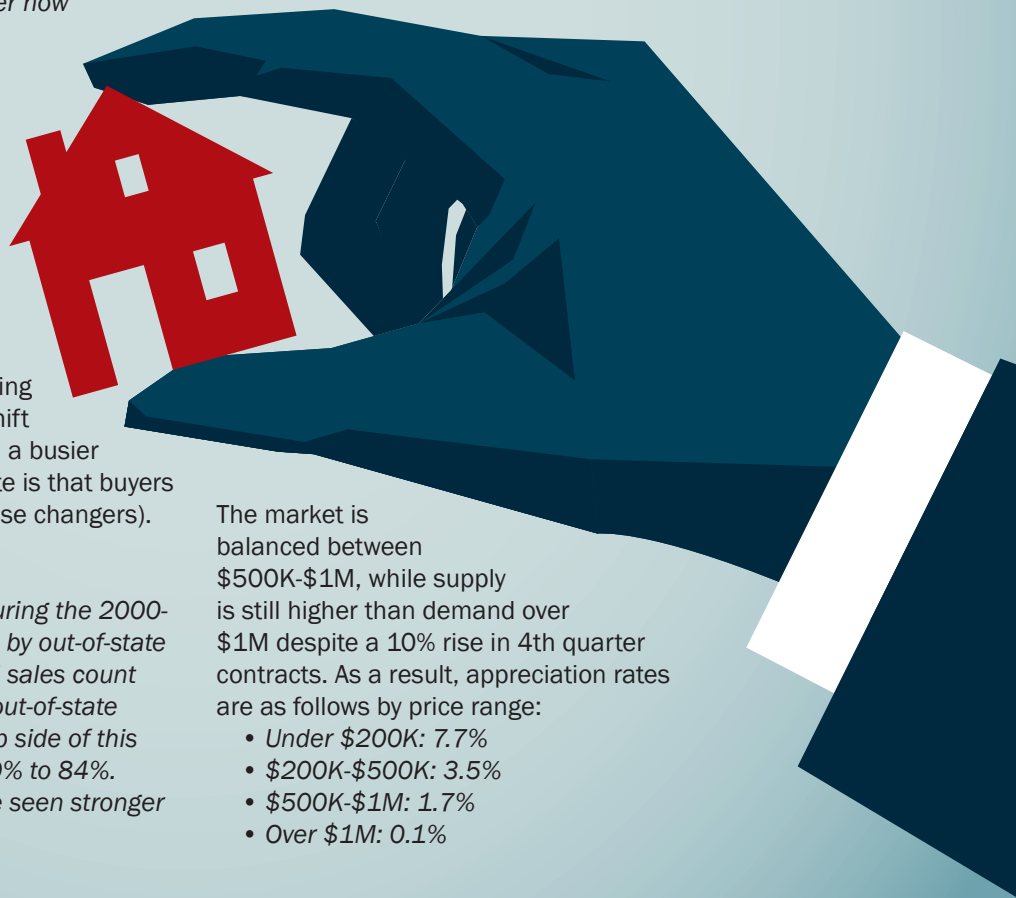
Appreciation

Supply and demand ultimately dictate appreciation. It should come as no surprise that appreciation was greatest in the lower price ranges due to low supply.

Turning back to The Cromford Report, we can see exactly how true this is: *After peaking on July 28 at 8.6%, the appreciation rate for all areas and types went into a declining trend until November 9 when it bottomed out at 3.6%. It then changed course and over the last 5 weeks has risen sharply to reach between 7% and 7.5%...Such a rapid change in direction is quite unusual.*

The overall appreciation rate based on annual sale price per square foot in Greater Phoenix is 6.2%. However, Supply and Demand are not the same by price range. The greatest appreciation rates are under \$200K due to a lack of new construction that would typically balance out the supply shortage.

Sales under \$200K are 33% of all sales this year, so their rate has a large effect on the overall average. New multi-family and single-family homes are being added to the \$200K-\$500K price range to accommodate increased demand, but it's still not quite enough.



The market is balanced between \$500K-\$1M, while supply is still higher than demand over \$1M despite a 10% rise in 4th quarter contracts. As a result, appreciation rates are as follows by price range:

- Under \$200K: 7.7%
- \$200K-\$500K: 3.5%
- \$500K-\$1M: 1.7%
- Over \$1M: 0.1%

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Agents

We rarely talk about real estate agents, although they certainly can impact the marketplace in subtle ways. It may be of interest that there was a 6.6% increase in the number of real estate agents since last year as rookies continue to enter the field. While agents certainly don't set the marketplace (supply and demand does) they certainly can influence the buying and selling experience. Agent skill impacts the counsel clients receive on market behavior or not; negotiate the highest market value or not. They should be the client's biggest advocate and legally in fact have a fiduciary relationship to the client.

As institutional investment companies are swarming the Valley, sellers can learn the hard way the impact that a missing real estate advocate has in terms of reduced proceeds.

Particularly disturbing is the institutional buyers' offers of "no commission sale" while charging fees of more than 9 percent—far beyond what might be charged as a commission. Add-in the typically lower than market value and imaginary "repair costs", and sellers are paying dearly for that lack of representation.

Lower than true market value sales can impact appraisals and subsequent neighboring sales—a sobering thought for all of us vested in defending neighborhood values. As 2018 continues to progress, we will endeavor to keep you apprised of the emerging trends.

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