

*May 16, 2012 Edition of Residential Focus*

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*Grand Canyon Title is a locally owned company closing real estate transactions in Greater Phoenix since 1982*

## The Residential Resale Market Has Changed

In Greater Phoenix, a demand exists for single family homes, and in the lower price ranges—it's furious! Wanting to buy are first time homebuyers, buyers who used to own but went through a short sale or foreclosure, investors, second home buyers. Many buyers are foreigners who want a piece of the Arizona sun.

This great demand has collided with shrinking inventory. The supply of listings is at levels not seen for a time. This demand for and decline of inventory is raising prices for properties sold at foreclosure auctions, for lender owned sales, for short sales, for equity sales, for cash buyers, for financing buyers.

Unless otherwise mentioned this report analyzes the single family residential resale market in Greater Phoenix.

### Declining Supply of Single Family Residential Listings

Approximately seventy-percent of all single family sales each month are under \$200,000. In decline are the number of properties listed under \$200,000 on the Arizona Regional Multiple Listing Service, Inc. (ARMLS). On March 13 there were 3,194 listings compared to 2,430 on May 13 for a twenty-four percent decrease. In April there were 3,959 single family property sales under \$200,000. Currently there is less than a one month supply of properties listed under \$200,000.

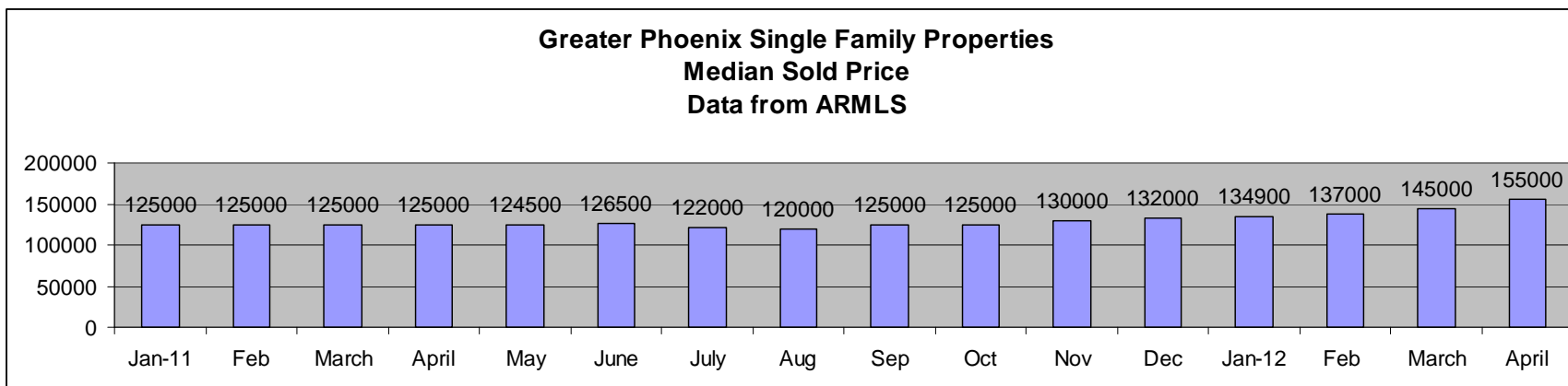
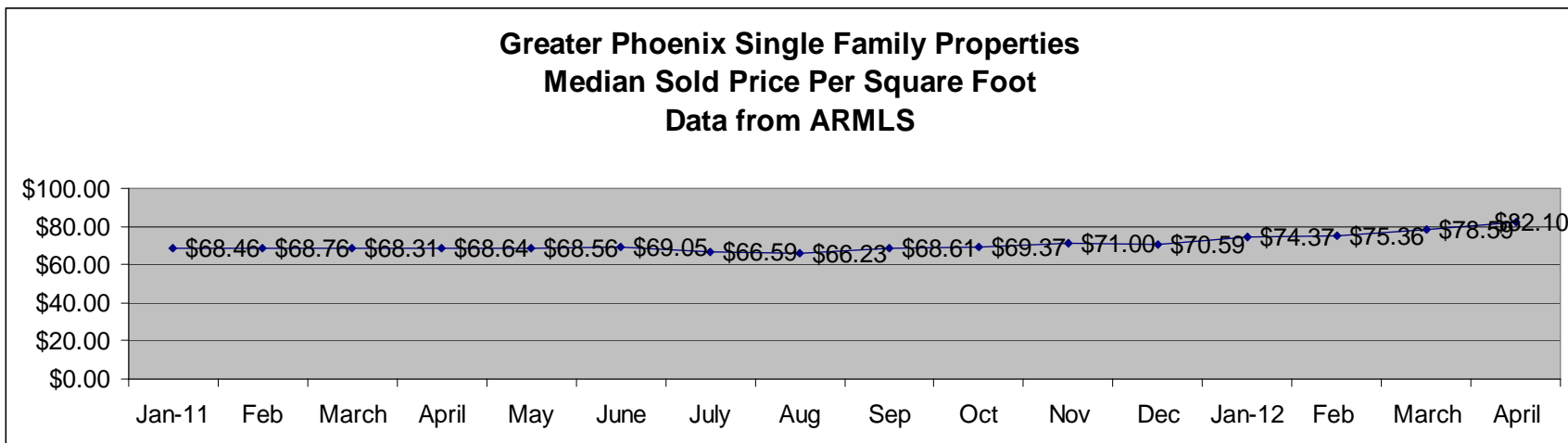
Single family active listings under \$200,000 in Greater Phoenix	March 13	April 12	May 13	March 13 to May 13 decline in active listing inventory priced under \$200,000
	3,194	2,738	2,430	-764 or -24%

## Single Family Sold Prices Up in Greater Phoenix

In April 2011 the median sold price per square foot in Greater Phoenix was \$68.64 compared to \$82.05 this April for an increase of twenty-percent. Greater Phoenix is defined in this paper as the cities within Maricopa County, Arizona.

According to Realtor.com the Phoenix-Mesa area leads the nation on the list of turnaround towns.

[REALTOR.com Names Top Turnaround Towns – May 2012 \(DATA\) | REALTOR.com® Blogs](#)



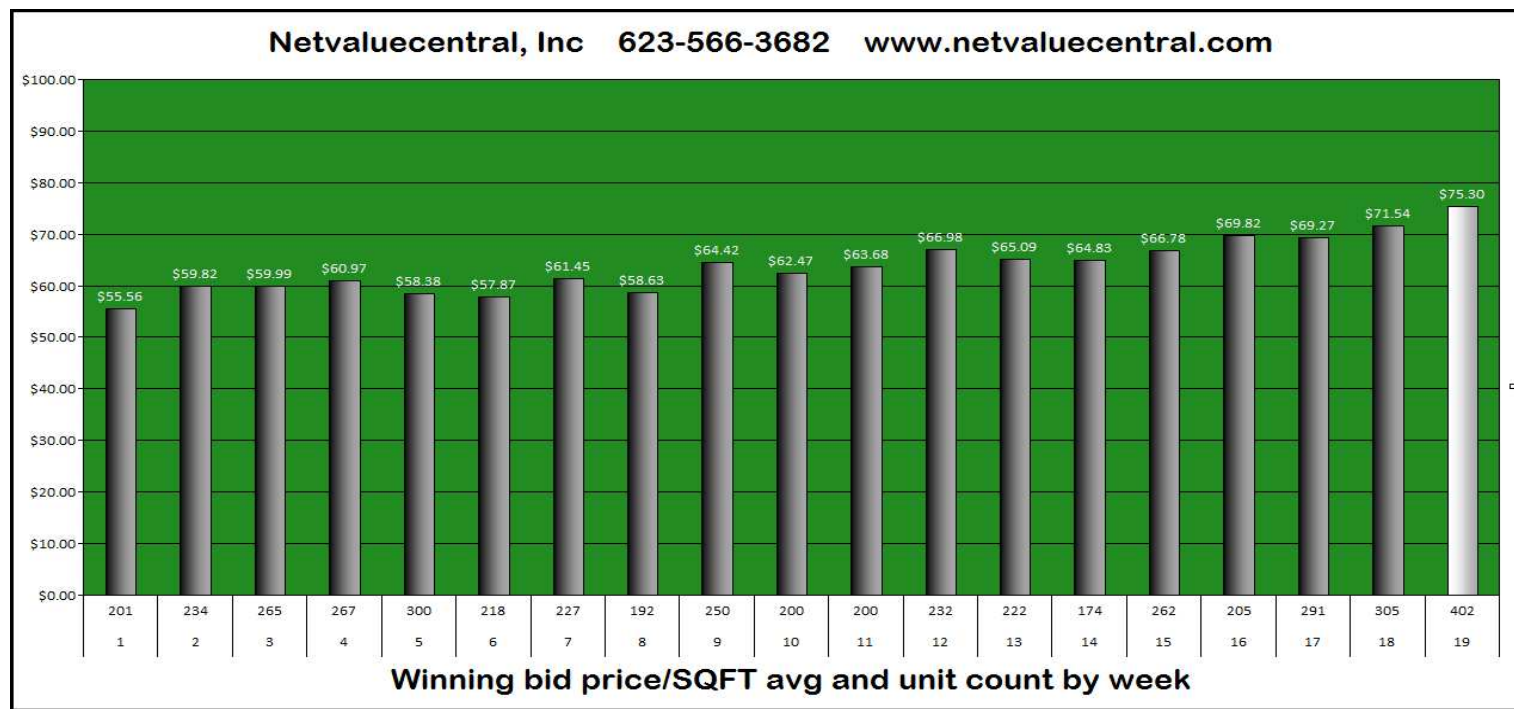
## Investors Paying More at Foreclosure Auctions

April was the seventh straight month in Greater Phoenix more single family properties sold at foreclosure auctions to third parties or investors than went back to the lender. For more information on this and other lender trends go to

<http://www.gcta.com/wp-content/uploads/2012/03/Feb-28-Update-Lenders-prefer-alternative-to-foreclosure.pdf>

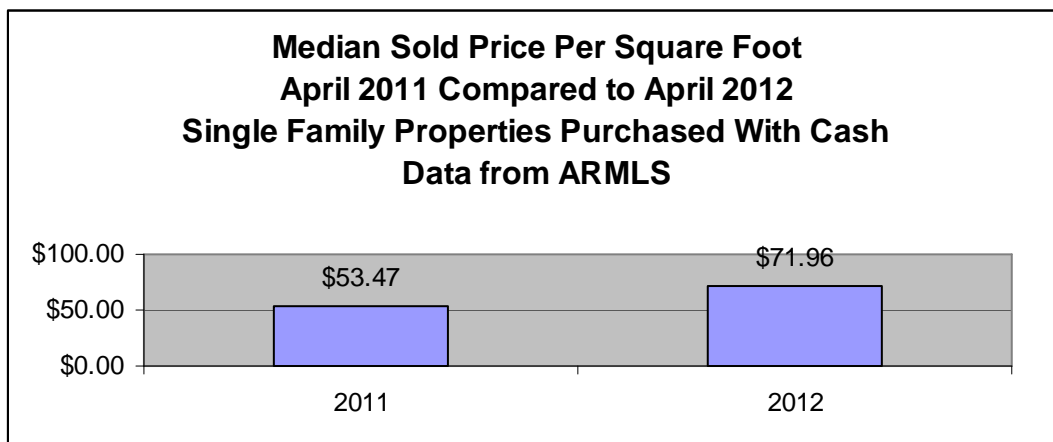
Dave Bignoli, President of NetValueCentral.com which is a provider of Greater Phoenix property data for investors and real estate agents said the winning bid price per square foot in the first week of February was \$58.38 compared to \$71.54 in the week of April 30 for an increase of twenty-three percent.

Single Family Properties  
**Mean Price Per Square Foot Paid and Number of Sales at Foreclosure Auction**  
 Week 1 is January 1 through January 7. Week 18 is April 30 through May 4



## **Cash Buyers Paying More**

The median sold price per square foot paid by cash buyers for properties listed in ARMLS on April 2011 was \$53.47 compared to \$71.96 in April 2012 for an increase of thirty-five percent.



In April 2012 the least expensive cash purchase was \$10,500 and the most expensive was \$4,300,000.

## **Financing Buyers Who Will Owner Occupy Property Paying More**

Buyers purchasing with an FHA insured loan paid fourteen-percent more per median square foot in April 2012 than April 2011. In April 2011 buyer's paid \$68.45 compared to \$78.19 in April 2012. An FHA insured loan is a popular loan. In 2011, twenty-three percent of total single family sales in Greater Phoenix were purchased with this type of financing. FHA insured loans are only for buyers who will occupy the property. The borrower has to put a minimum 3.5% down and pay mortgage insurance. The maximum FHA insured loan amount is \$346,250 for properties in Maricopa County. April was the sixth consecutive month the median sold price per square foot increased for buyers with this type of financing.

When a seller has a choice between selling to a cash buyer versus selling to a financing buyer, often the cash buyer wins even if the financing offer is for a little more money. Why? The seller may want a quicker close than would happen if financing and an appraisal is required. When a buyer purchases with financing the

Arizona Association of REALTORS Residential Resale Real Estate Purchase contract contains an appraisal contingency which says that if the property doesn't appraise for the purchase price in any appraisal required by the lender, the buyer has five days to cancel the contract and receive a refund of the earnest money. If a property doesn't appraise and the buyer cancels, the seller has to start over the contract process with another buyer. Thus, more time passes before the seller can close. Appraisal uncertainty is why many sellers prefer cash. I have heard that some financing buyers to be more competitive are agreeing to waive the appraisal contingency. John Wake an Associate Broker at HomeSmart Real Estate in Scottsdale, Arizona said the king is cash and appraisals have killed a lot of deals. He represented a buyer who made a cash offer in the \$600,000 price range. There was a higher offer involving financing and an appraisal. The seller accepted his buyer's cash offer.

### **Financing Buyers Often Pushed to Higher Price Levels**

Because financing buyers are getting beaten by cash buyers (whom mostly are investors) financing buyers often purchase properties investors don't want. Investors want properties that will give them a return for their investment. If a property doesn't have much of a potential for a return, investors aren't interested in it, but a buyer looking for a place of their own to live most likely will be the buyer.

Since many financing buyers are tired of loosing out offer after offer they are making offers on properties investors aren't interested in buying. Sometimes this pushes the financing buyer to a higher price point. Lydia Wietsma of Red Brick Realty in Mesa, Arizona said properties listed between \$80,000 to \$150,000 often get from fifteen to twenty offers, and properties listed between \$200,000 and \$240,000 get two to four offers. She had a buyer who started looking at paying around \$170,000 and after not getting a contract accepted now is looking at the \$215,000 price point. She has another buyer who started at \$205,000 and is looking at \$235,000.

Lower interest rates are helping buyers to move to price levels where there may not be as much competition. Kelly Zitlow, Vice President, AZ Mortgage Specialist with Cherry Creek Mortgage in Scottsdale, Arizona had a borrower who wanted to own and was struggling to get an offer accepted after making many offers over the last couple of months. The borrower initially wanted to purchase in the \$200,000 range or under. Ms. Zitlow and the borrower sat down, crunched numbers at today's interest rates and the borrower realized they could afford to purchase at a higher, less competitive price point. The buyer increased their purchase price to \$220,000 and is now under contract to close.

## Low Interest Rates Increase Sales, Give Buyers More Purchase Power

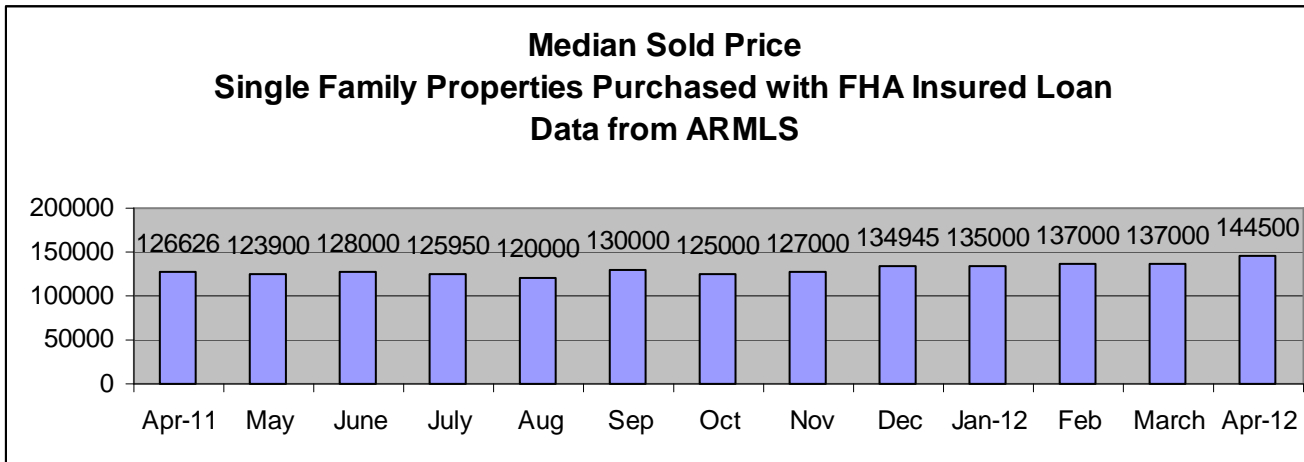
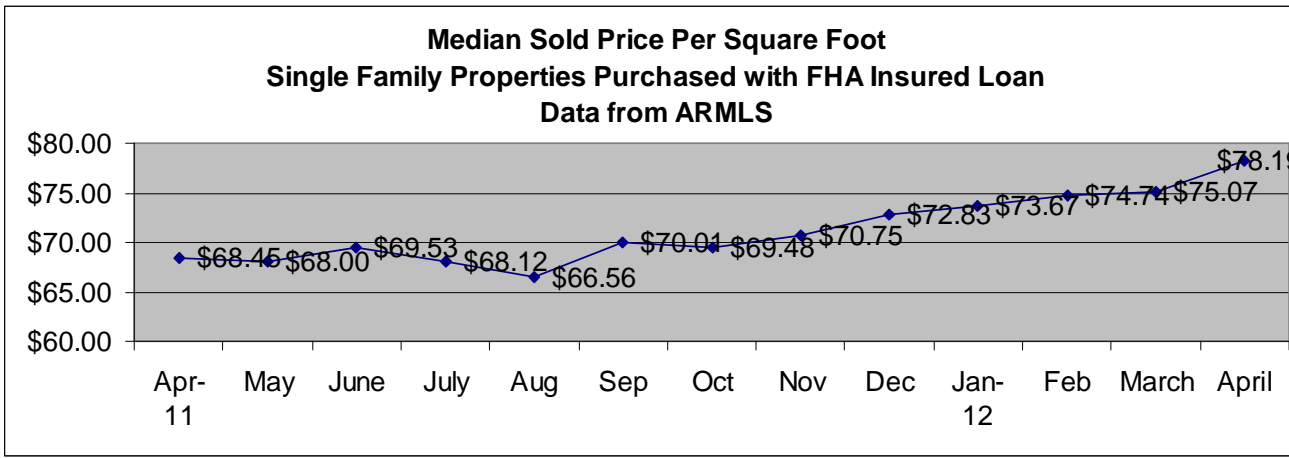
Low interest rates increase buyer's purchasing power. Ms. Zitlow gave this example: Let's say the maximum monthly principal and interest payment a buyer is qualified to make is \$1,073.64. This amount is the monthly principal and interest on a \$200,000 loan amortized for thirty years at a **five percent** interest rate. If the interest rate drops to **four percent** the borrower may qualify for a loan amount of \$224,000 with a monthly principle and interest payment of \$1,069.41. A lesser monthly payment of \$4.23.

	\$200,000 loan amount	\$224,000 loan amount
Interest rate on 30 year amortized loan	5%	4%
Total principal and interest payment	\$1,073.64	\$1,069.41

(In the above example, for simplicity I wanted to compare the difference in principle and interest paid with different interest rates and left out the monthly payment for property taxes, homeowners insurance and any HOA payment).

David Fierabend, Senior Vice President, Loan Originator at Suburban Mortgage in Phoenix said now may be the time to buy with housing prices raising and with thirty year fixed rate mortgages at historic lows. Mr. Fierabend said qualified borrowers may be able to get an even lower monthly payment than a thirty year fixed mortgage by choosing a five year fixed interest rate that may be as low as three percent. He said this type of loan may be a good option for someone who is planning to move in five years or who's income may be increasing.

Freddie Mac <http://www.freddiemac.com/pmms/> on May 10, reported that the average interest rate for a thirty year fixed mortgage was 3.83 percent. On April 14, 2011 they reported the average interest rate for a thirty year fixed mortgage at 4.91percent.



In April 2012 the least expensive purchase using an FHA insured loan was \$35,000 and the most expensive was \$415,000.



## Dark Shadows: Shining Light on Shadow Inventory Myth

Shadow inventory stories abound. Stories that a wave of foreclosure properties will flood the market driving down home values. How much lurking shadow inventory there might be makes for good cocktail party talk. Recently a real estate broker asked me what I thought of all the possible shadow inventory to be released. I said I don't think there is much single family shadow inventory that will be released. Below is an email I received last week which agrees with my real estate broker friend of lurking shadow inventory.

*"A recent \$25 billion relief settlement has been reached and these institutions will soon begin releasing the properties caught up in the 11,000,000 foreclosure filing backlog. So far, over 250% increases in filings have occurred, with another 200% anticipated." [This is not so in Greater Phoenix](#)*

### **Active Listings Priced Under \$200,000 Declining**

Dark shadow stories may be true for other geographic areas, but in Greater Phoenix we want more single family inventory, especially listings priced at \$200,000 or less. The demand for single family properties under \$200,000 by both investors and potential owner occupants is high. In April 2012, ARMLS data showed 3,959 single family property sales under \$200,000, while on May 13, the number of active single family listings under \$200,000 were 2,430 or less than a one month supply.

Single family active listings under \$200,000 in Greater Phoenix	March 13	April 12	May 13	March 13 to May 13 decline in active listing inventory priced under \$200,000
	3,194	2,738	2,430	-764 or -24%

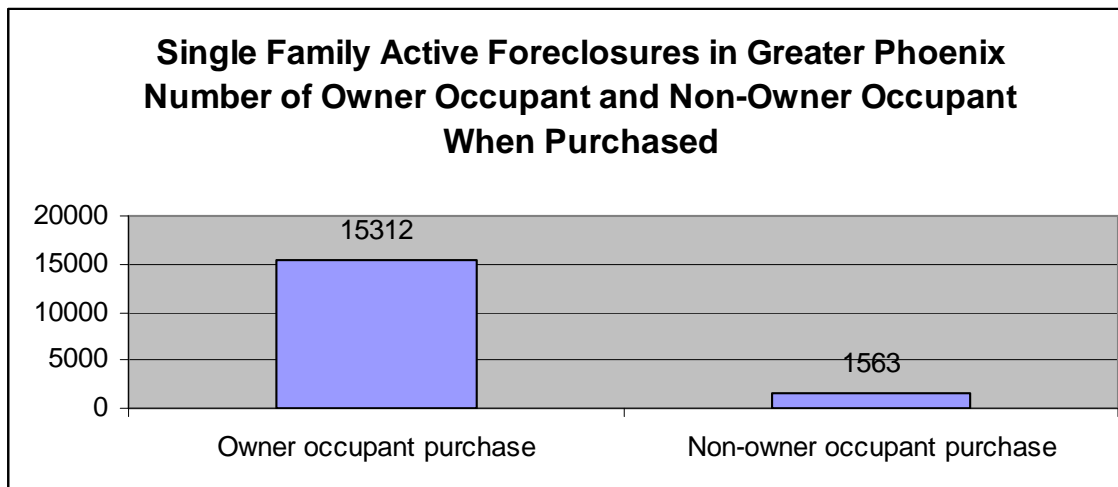
## Then versus Now: Number of Properties in Foreclosure

On any given day at the height of the foreclosure crisis there were 46,000 properties in the foreclosure process in Greater Phoenix. On May 1, 2012 there were 23,419. This is a decrease of forty-nine percent.

## Demand for Single Family Rentals to Continue

Of the 23,419 properties in foreclosure single family properties represented 16,875 or seventy-two percent. Of the 16,875 county records show ninety-one percent (91%) or 15,312 were purchased by an owner occupant, whereas nine percent (9%) were purchased by non-owner occupants.

Those single family owner occupants whose homes will be foreclosed on most likely will rent another single family home. Especially if they have children, a dog, a cat, a garage full of stuff. Their preference will not be an apartment. And if they have children in school they will want to lease a single family home in the same school district. This demand for single family rentals fuels investor demand to purchase and rent single family homes.



## Defining Shadow Inventory Three Ways

### First definition: foreclosed properties held by lenders but not yet put on market.

If shadow inventory is defined as those properties that have been foreclosed on and are being held by lenders, Fannie Mae and Freddie Mac without being put back on the market, the number is not significant. According to [NetValueCentral.Com](http://NetValueCentral.Com) a provider of real estate information on Greater Phoenix properties, on May 1, there were 4,872 single family properties that had been foreclosed on that were being held by lenders which were not yet listed. These properties would be considered shadow inventory. This number represents about a one month supply. The table below breaks down the outstanding lender owned / REO single family properties by three categories: active listings, under contract and pending, and held by lender but not listed or on the market.

#### **Single Family Lender Owned / REO Properties Held by Lenders on May 1, 2012 Greater Phoenix**

Lender owned / REO properties that are active listings	914
Lender owned / REO properties that are under contract and pending sale	1,383
<b>Lender / REO properties not listed and held by lender (small number of shadow inventory properties)</b>	<b>4,872</b>
Total lender owned / REO single family properties	7,169

### Second definition: properties in foreclosure process that have yet to go to foreclosure auction

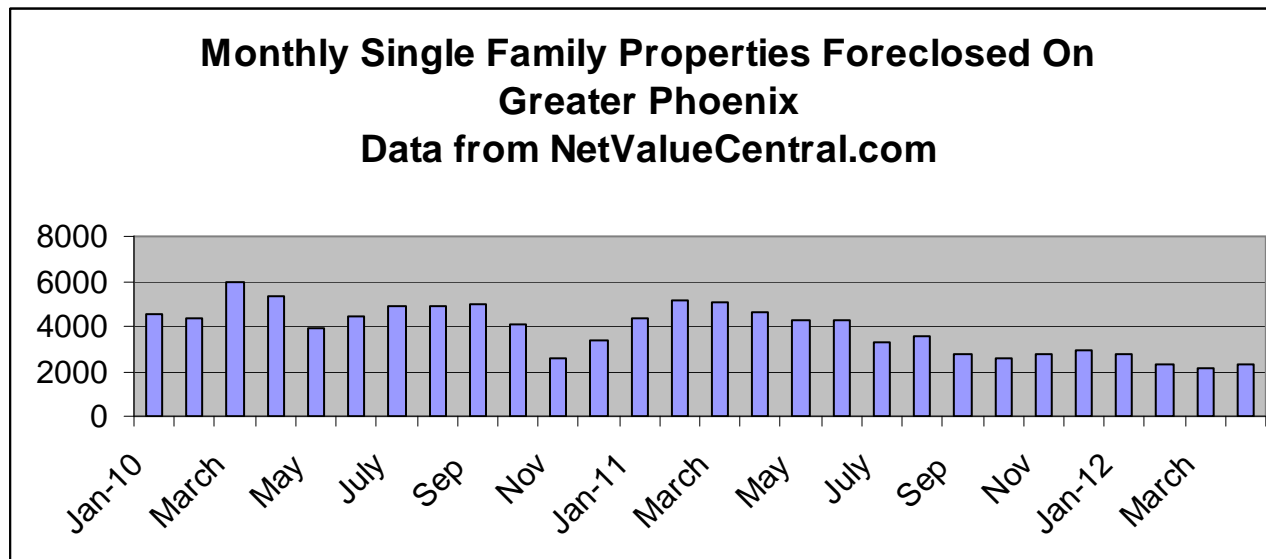
If shadow inventory is defined as those properties currently in the foreclosure process, but the foreclosure has not been completed then on May 1, 2012 there were 16,875 single family properties in this category. At the

peak there were 30,000 single family properties in the foreclosure process on a given day. Some properties in the foreclosure process will short sale and never make it to auction. Of the 16,875 in foreclosure, 14,404 or

eighty-five percent had an original loan amount under \$350,000. These properties will sell for much less than their original loan amounts. Most will sell in the hot demand range of under \$200,000. At the current rate of demand rate if all 14,404 were dumped on the market today (this will not happen) they would all be gone in about three months.

Even with 16,875 properties in the foreclosure process the number of properties each month going to foreclosure auction is considerably down. In April 2010, 5,311 properties were auctioned compared to 2,281 in April 2012 for decrease of fifty-seven percent.

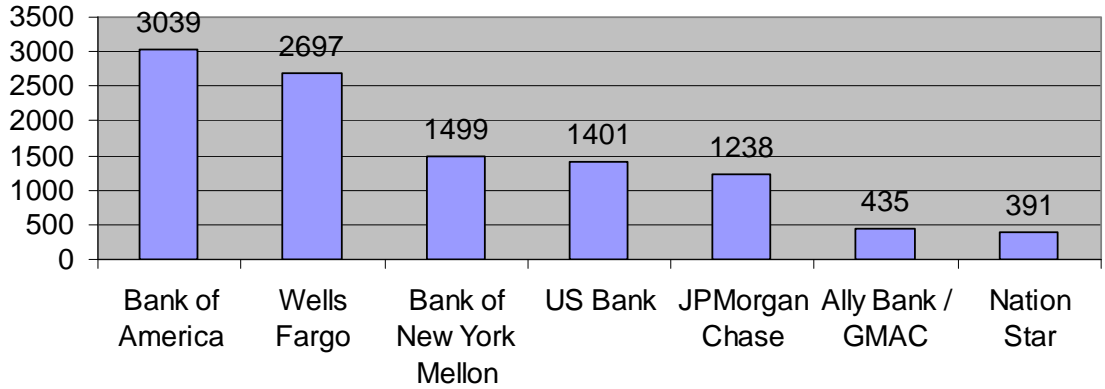
	April 2010	April 2011	April 2012
Number of Single Family Properties Auctioned	5,311	4,591	2,281



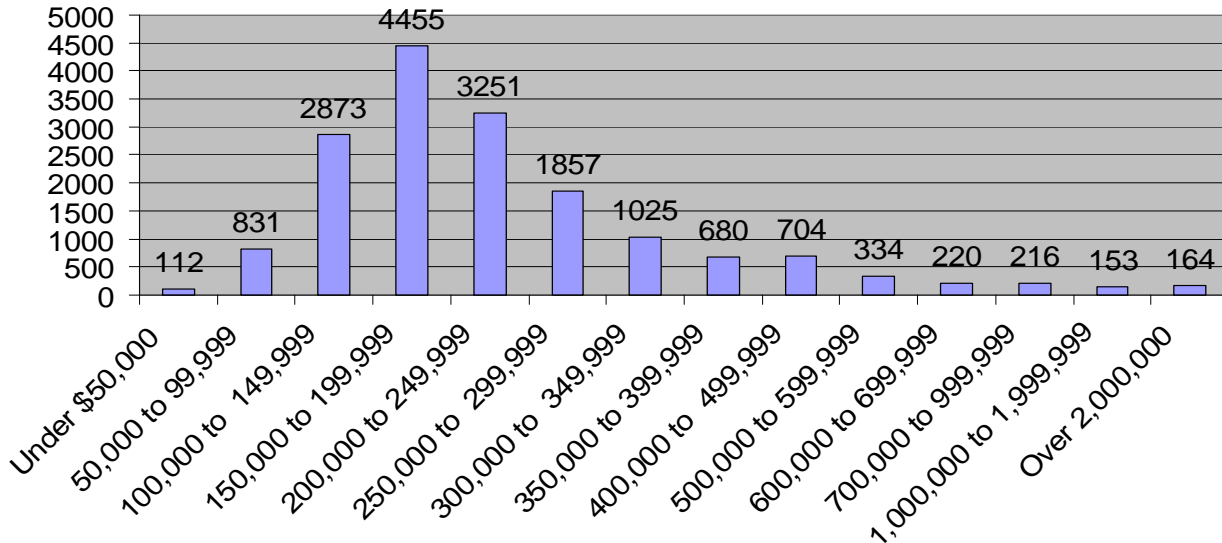
**May 1, 2012**  
**Single Family Properties in the Foreclosure Process in Greater Phoenix**  
**Information from [NetValueCentral.com](http://NetValueCentral.com)**

Original Loan Amount	Outstanding Foreclosure Notices	Percentage in Foreclosure	Bank of America	Wells Fargo	Bank of New York Mellon	US Bank	JPMorgan Chase	GMAC	NationStar	Other banks
Under \$50,000	112	0.7%	17	11	2	4	11	0	0	67
50,000 to 99,999	831	4.9%	174	174	44	44	89	24	8	274
100,000 to 149,999	2,873	17.0%	562	549	224	224	214	70	51	979
150,000 to 199,999	4,455	26.4%	807	729	427	412	343	125	105	1,507
200,000 to 249,999	3,251	19.3%	637	484	303	254	244	88	104	1,137
250,000 to 299,999	1,857	11.0%	334	295	158	152	121	48	52	697
300,000 to 349,999	1,025	6.1%	173	167	74	95	77	36	28	375
350,000 to 399,999	680	4.0%	100	115	61	47	51	17	26	263
400,000 to 499,999	704	4.2%	98	87	87	72	41	18	14	287
500,000 to 599,999	334	2.0%	43	33	43	42	7	4	2	160
600,000 to 699,999	220	1.3%	36	22	26	18	8	5	1	104
700,000 to 799,999	94	0.6%	11	8	11	0	6	0	0	58
800,000 to 899,999	57	0.3%	5	6	7	7	2	0	0	30
900,000 to 999,999	65	0.4%	7	3	7	3	8	0	0	37
1,000,000 to 1,499,999	103	0.6%	15	4	12	17	6	0	0	49
1,500,000 to 1,999,999	50	0.3%	9	5	6	6	3	0	0	21
2,000,000 to 2,999,999	45	0.3%	9	3	6	4	6	0	0	17
3,000,000 to 3,999,999	77	0.5%	2	2	1	0	1	0	0	71
4,000,000 to 4,999,999	0	0.0%	0	0	0	0	0	0	0	0
5,000,000 & over	42	0.2%	0	0	0	0	0	0	0	0
<b>Total</b>	<b>16,875</b>	<b>100%</b>	<b>3,039</b>	<b>2,697</b>	<b>1,499</b>	<b>1,401</b>	<b>1,238</b>	<b>435</b>	<b>391</b>	<b>6,133</b>

**Seven Lenders with Most Active Number of Single Family Foreclosures in Greater Phoenix**



**Single Family Active Foreclosures by Original Loan Amount for Greater Phoenix**



**Third definition: households ninety or more days late will eventually be foreclosed on and flood market**

Another definition of the shadow are those households whom are ninety or more days late on their mortgage payments. This number is in retreat.

Core Logic [http://www.corelogic.com/about-us/researchtrends/asset\\_upload\\_file347\\_14980.pdf](http://www.corelogic.com/about-us/researchtrends/asset_upload_file347_14980.pdf) on May 1 released a report. The subtitle of the report is

*"Largest Improvements in Foreclosure Rate from a Year Ago were in Nevada and Arizona"*

Their report shows less households in March 2012 were ninety or more days late on their mortgage payments than in March 2011. The number is down -4.1%. For the core statistical area of Phoenix-Mesa-Glendale 6.5% of households were more than 90 days late on their mortgage. See page 5 in link.

**Core Logic May 2012 Report for Phoenix-Mesa-Glendale**

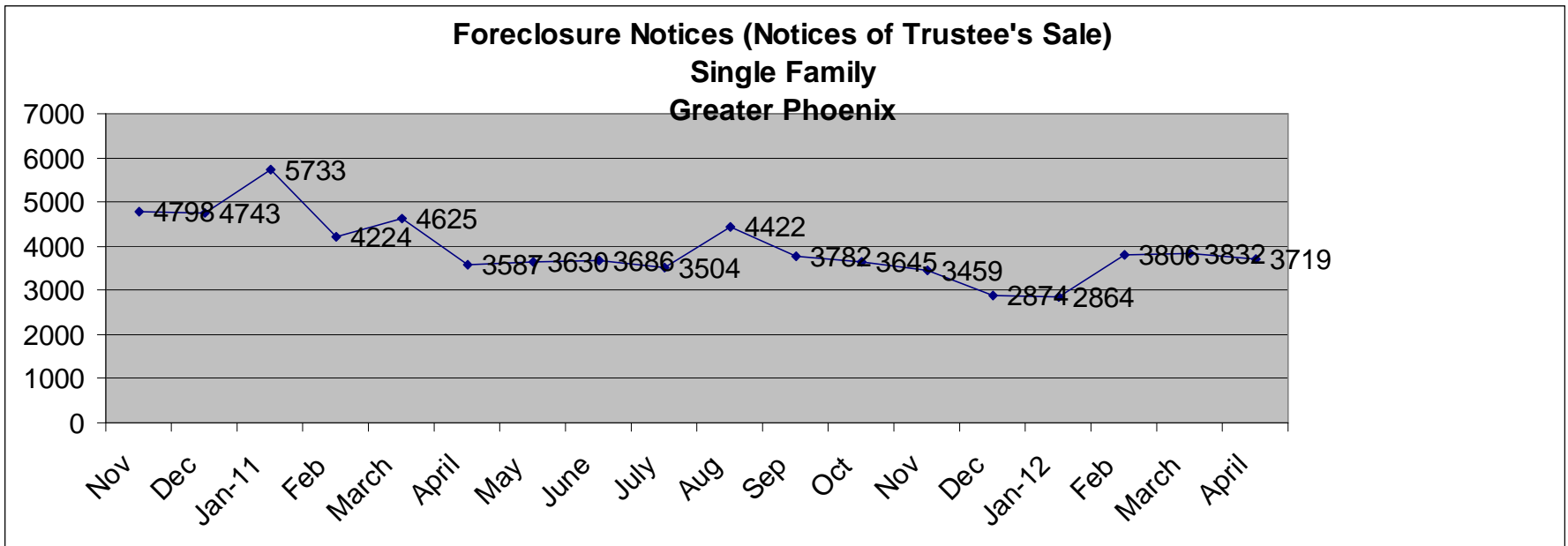
March 2012 90 plus days delinquent	Percentage change when comparing March 2011 to March 2012 for 90 plus days delinquent
6.5%	-4.1%

The trend for putting single family homes into foreclosure is down. The recorded foreclosure notice in Arizona is called the notice of trustee's sale (NOTS). When this notice is recorded against a property the property is officially in the foreclosure process.

Single family recorded foreclosure notices in April 2012 were 3,719 compared to 3,585 in April 2011 for an increase of four percent, but when comparing April 2012 to April 2010 there were 2,013 less recorded foreclosure notices for a decrease of thirty-five percent. When comparing the number of foreclosure notices for the first four months of 2011 there were 18,169 compared to 14,221 for the first four months of 2012, 3,948 less or 22% less.

**Foreclosure Notices (Notices of Trustee's Sale)  
Single Family Properties in Greater Phoenix**

Greater Phoenix	April 2010	April 2011	April 2012
Recorded foreclosure notices for single family properties	5,732	3,585	3,719





## **NOTE:**

The statistics in this report are based on information from the Arizona Regional Multiple Listing Service, Inc. and NetValueCentral.com

This report is for real estate agents only. This report does not guarantee the accuracy of the data. Some numbers will change. Report may not reflect all real estate activity. Information should be verified. This article is of a general nature, and is not intended as investment advice, real estate advice, lending advice or legal advice. Please consult your broker, your lender, your own independent legal counsel, your certified public accountant. The information in this report may not be the opinion of Grand Canyon Title Agency, Inc.