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The Phoenix Residential Marketplace

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The Road to Recovery: For an accurate assessment, the “health” of the Phoenix residential real estate market must be analyzed in price-point “segments.”

The data below indicates that the residential market at FHA loan levels (\$346,250) and below is moving into balance with active inventories from 3-6 months throughout most of metropolitan Phoenix—a balanced market is 3-5 months inventory. FHA loans, which enable a buyer to buy with as little as 3.5% down payment and allow a seller contribution of up to 6% of purchase price toward buyer’s loan and closing costs, are largely responsible for dramatically reducing inventory at the \$350,000 price point and below from more than 20 months two years ago to the current 3-5 month levels.

The stringent underwriting requirements of commercial banks for conforming conventional loans, under \$417,000., and Jumbo loans, above \$417,000., have stymied inventory absorption above FHA loan limits. The result is that the inventory of unsold homes increases as the price of homes increases. Economics 101 teaches us that when supply exceeds demand, prices will continue to decline.

Therefore, based on the data below, the Phoenix residential market will recover from the bottom up. Properly priced homes at the \$350,000 level and below have “bottomed out” are approaching “bottom.

Mid-market homes priced above \$350,000 to \$500,000 have substantially higher unsold inventories and likely will continue to experience price declines for the next 18-24 months, unless commercial banks relax underwriting guidelines substantially.

Homes priced from \$500,000 and higher into the “luxury market” currently have unsold inventories ranging from 27 months to more than five years. Absent greater mortgage liquidity for “Jumbo” loan programs, the prices for homes priced in these ranges face further substantial declines and the inventory is not likely to move into balance for three or more years.

Price Range of Homes

Months Inventory Supply

(Active inventory divided by monthly sales)

\$00-350,000	3.6
\$350,001-500,000	16.6
\$500,001-\$750,000	27.6
\$750,001-1,000,000	51.4
\$1,000,001 +	64.7