The Real State®

A Snapshot of the Greater Phoenix Residential Real Estate Market

R·O·I PROPERTIES®
ENHANCING REAL ESTATE ASSETS

Below 90 = LOW SUPPLY

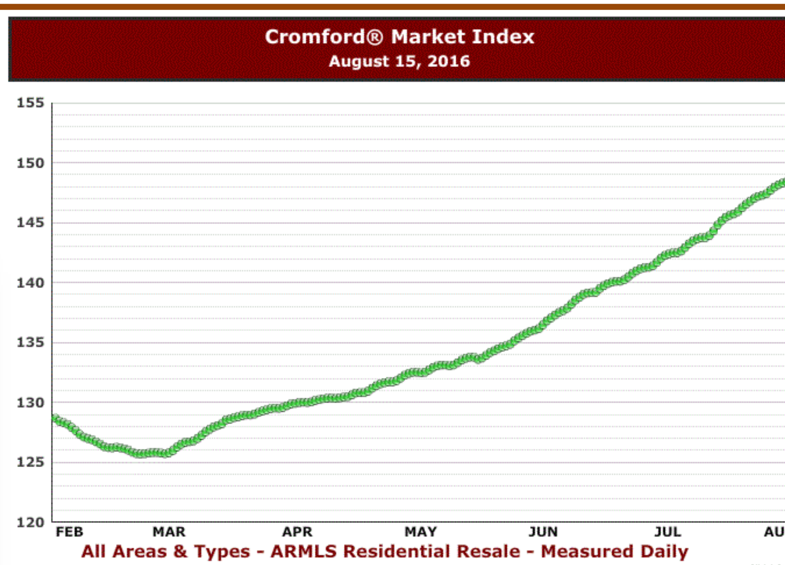
Between 90-110 = NORMAL DEMAND

Over 110 = SELLER'S MARKET

August 21, 2016

From July to August 2016, the supply-demand index moved 6 more points in favor of sellers, from 143.3 to 149.3. This is due to the supply index declining, again, 2.6 points from 73.6 in July to 71.0 in August, while the demand index rose slightly, from 105.5 to 106.1. At 149.3, the index continues to surpass previous 2016 levels and is close to the measurements of April 2004. The upward trajectory and appreciation rate, however, are more comparable to 2003, which was a more normal market in our history. Given the increasing advantage towards sellers, it is reasonable to expect positive appreciation overall for the Phoenix metropolitan area over the next 3 to 6 months, with higher rates in the lower price ranges and lower rates in the higher price ranges.

The adjacent graph illustrates the relationship between supply and demand over time and indicates shifts between seller's and buyer's markets. A measurement between 90-110 indicates equal advantage for both buyer and seller, over 110 indicates distinct seller advantage, and below 90 indicates distinct buyer advantage.



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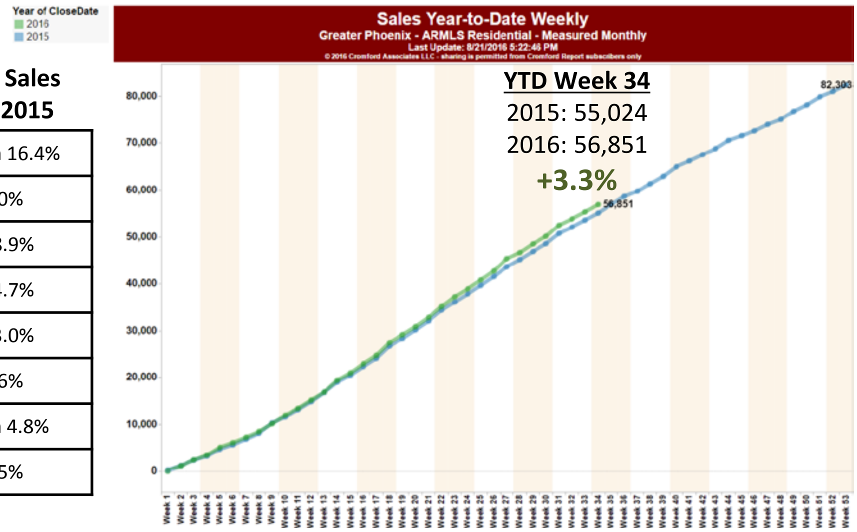
Comparing 2016 to 2015 Year-to-Date: Week 34

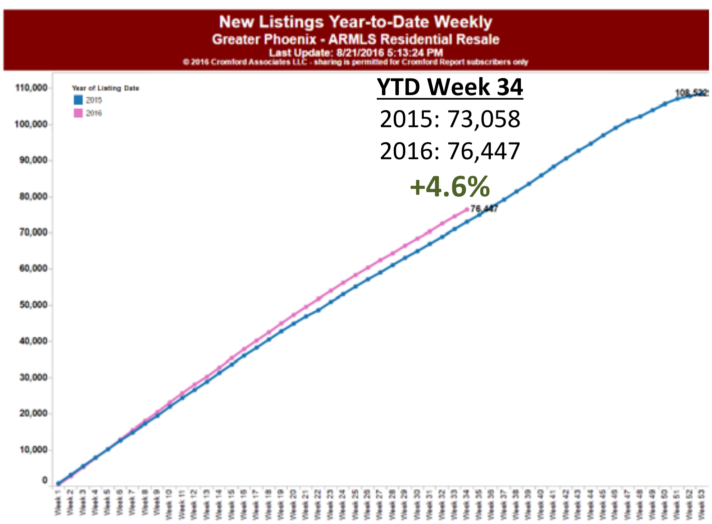
SALES VOLUME

Residential sales in 2016 are up 3.3% in week 34 of 2016 compared to this time last year, moving up another 0.2% from last month. Sales under $300K have eased up just a bit over the past few weeks compared to 2015. Over $300K saw the year-to-date gap improve over last year, with the exception of the $800K-$1M range—which had an impressive spring, but a less active summer thus far.

Change in MLS YTD Sales
Week 34: 2016 vs. 2015

Under $175K	Down 16.4%
$175K - $200K	Up 8.0%
$200K - $300K	Up 18.9%
$300K - $500K	Up 14.7%
$500K - $800K	Up 13.0%
$800K - $1M	Up 7.6%
$1M - $2M	Down 4.8%
Over $2M	Up 1.5%





NEW LISTINGS

New listings activated in 2016 are up 4.6% in week 34 compared to the same week last year. All price ranges are up for new listings compared to 2015 year-to-date; however, most of that is due to a higher volume of weekly new listings in the first half of the year. The past 4 to 8 weeks have been comparatively subdued for new listings, as the summer temperatures soar.

Total MLS active supply at the end of week 34 is 18,236, up only 2.3% over last year's mark of 17,825.

Change in YTD New Listings
Week 34: 2016 vs. 2015

Under $175K	Down 18.0%
$175K - $200K	Up 8.0%
$200K - $300K	Up 19.6%
$300K - $500K	Up 13.9%
$500K - $800K	Up 13.2%
$800K - $1M	Up 9.4%
$1M - $2M	Up 7.7 %
Over $2M	Up 2.6%

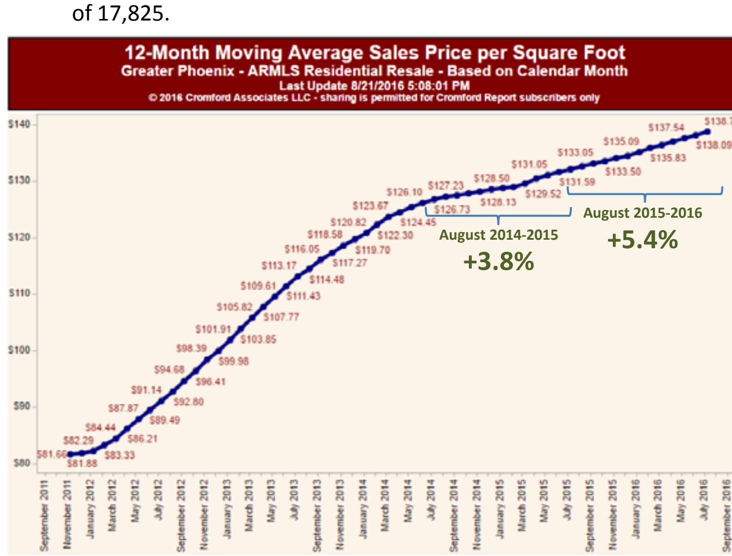
APPRECIATION

Annual appreciation for properties under $175K is now up to 9%. The market over $500K continues to be stagnant, while appreciation in the $300K-$500K range remains moderate—primarily due to new home construction that adds supply and competition above and beyond new listings in the local MLS.

Sales under $300K have been 72.5% of all MLS sales so far this year, which is why this segment is the dominant influence over Phoenix metro trend reporting.

Change in 12-Month Average Sales Price per Square Foot

Under $175K	Up 9.0%
$175K - $200K	Up 4.5%
$200K - $300K	Up 3.9%
$300K - $500K	Up 2.0%
$500K - $800K	No Change
$800K - $1M	Up 0.2%
$1M - $2M	No Change
Over $2M	Down 1.0%



Sales price per square foot trends do not immediately respond to shifts in supply and demand due to the length of the sales cycle. It takes anywhere from 3 to 6 months to see a response in price appreciation as the market must first wait for responses in list prices, listings under contract and finally sales to record.

Brexit: Will British Exit from the EU Affect Phoenix Real Estate?

There has been significant chatter in the news media regarding the effects of Brexit on U.S. markets. While the fast-reacting stock market is like a speed boat that can turn on a dime, the residential real estate market is more akin to a giant oil tanker that takes a while to start changing direction even after you've moved the rudder. The slower reaction in real estate is explained by the number of months it takes from the moment a seller decides to sell to the actual close of escrow. In order for Brexit to have a direct influence on U.S. real estate prices, the emotional and financial effects would need to have an impact that lasts for more than a season.

So far, the most obvious effects of Brexit have been on the stock market, which has the biggest influence on the luxury market, since buyers are less dependent on secure employment and affordability. Buyers in this market tend to be high-end executives, business owners, foreign corporations, and wealthy retirees. Their decision to invest in or divest from real estate has more to do with their confidence in the future performance of their businesses and their investment accounts. Brexit is just another episode in a string of unsettling events for those with international risk exposure and sensitivity to exchange rates. Between the market crash in China last year, followed by "Oilmageddon" earlier this year, it's challenging to assess Brexit's direct impact on the U.S. residential market and, more specifically, to pinpoint any effects on the Phoenix metro area. There are plenty of folks willing to prognosticate, however.

One of the predictions is that home prices will rise because interest rates will remain low, which allows buyers to purchase more expensive homes with the same income. The weakness with this theory is that appreciation depends on both supply and demand, whereas interest rates only affect the demand side of the equation. If supply rises along with demand—whether it's from new home construction or more property owners deciding to list their homes—then appreciation could flatten or even decline, despite the increase in demand you'd anticipate from interest rates.

Employment and income are major influences on the residential market, as well. If corporations with significant international exposure find the need to lay off or reduce the pay of U.S. workers in large quantities due to Brexit, that would have a direct negative impact. The interest rate doesn't matter if fewer people can qualify for a loan. Job and income losses could cause households to consolidate, which simultaneously creates an excess of supply and reduction in demand. So far, we have not seen the Brexit causing this in the overall U.S. or in Phoenix specifically, which is one of the strongest metro areas in terms of job growth and GDP so far this year. Time will tell if it remains that way.

Could Brexit Actually Be a Positive for U.S. Real Estate?

How the surprising result of the U.K. referendum may offset other expected market effects later this year.

US News Real Estate

Brexit Could Make Your House Worth More

FORTUNE

What Does Brexit Mean for the U.S. Housing Market?

trulia

Brexit fallout is coming, but it could be good news

It's a matter of when, not if, the U.K. leaves the EU. But it may not go the way the pundits have predicted.

Jon Marino | @JonMarino

Friday, 12 Aug 2016 | 2:53 PM ET

CNBC

Brexit Hits U.K. Housing as Sales Decline Most Since 2008

Bloomberg Markets

Brexit! Everyone panic! (except New York)

UK's vote to ditch EU could boost NYC's commercial and resi markets

June 24, 2016 12:19PM

By Konrad Putzier

THE REAL DEAL NEW YORK REAL ESTATE NEWS

The Big Chill: From Brexit to the U.S. Election, Uncertainty is Freezing Market

COMMERCIAL OBSERVER

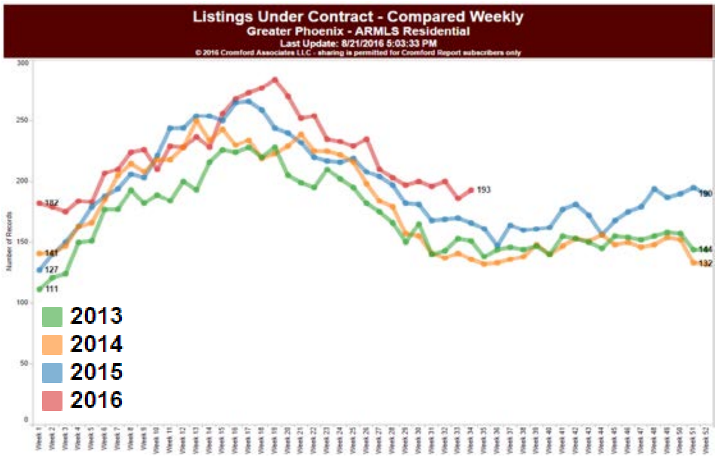
BY CATHY CUNNINGHAM AUG. 3, 2016, 9 A.M.

USA TODAY

Brexit unlikely to roil U.S. real estate sector, experts say

Luxury Market Over $1 Million

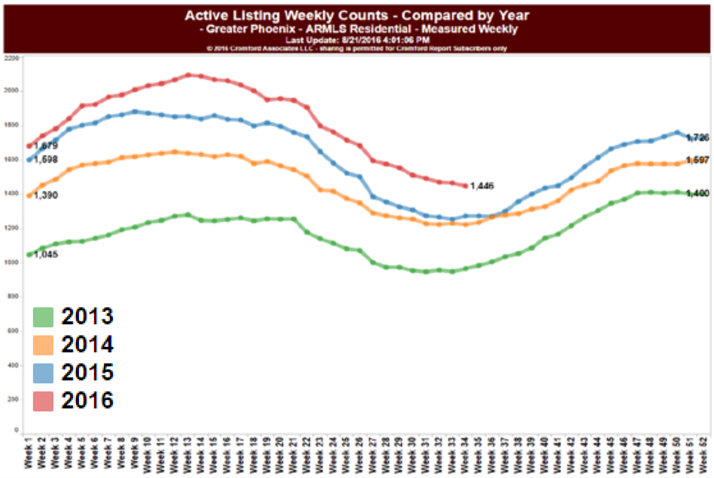
This month, we'll take a look at the performance of residential real estate over $1 million during the past three years.



Listings Under Contract Over $1 Million

The luxury market has more dramatic seasonal shifts than the rest of the market. The peak for buyer activity typically occurs in April and May and can drop anywhere from 30% to 40% from June to August. 2016 started off very strong, but it fell below both 2014 and 2015 measures by March before making it up in May.

- ***Listings under contract over $1 million are down 32% since their peak in May, but are up 16% compared to the same week in 2015.***

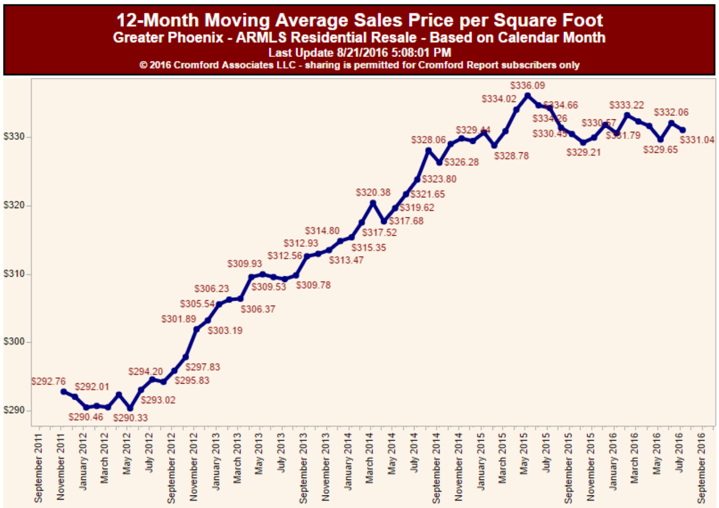


Supply Over $1 Million

The supply of homes over $1 million typically swells in the first quarter of the year, declines in the second quarter due to increased buyer activity in April and May, and experiences higher cancellation and expiration numbers in June. By August, supply is usually at its lowest in this price point. The rest of the market sees a similar trend in supply decline, but not to the extent of the luxury market.

- ***Supply over $1 million has declined 31% since its peak in March and is up nearly 14% over this week last year.***
- ***In contrast, supply under $1 million has only declined 16% since its peak in March and is up 1.4% over this week last year.***

New listings typically start hitting the market in late September and continue into October, increasing supply without a correlating increase in buyer activity. Weekly price reductions will also start to increase as existing listings compete with the new inventory.



12-Month Moving Average Sales Price/Square Foot

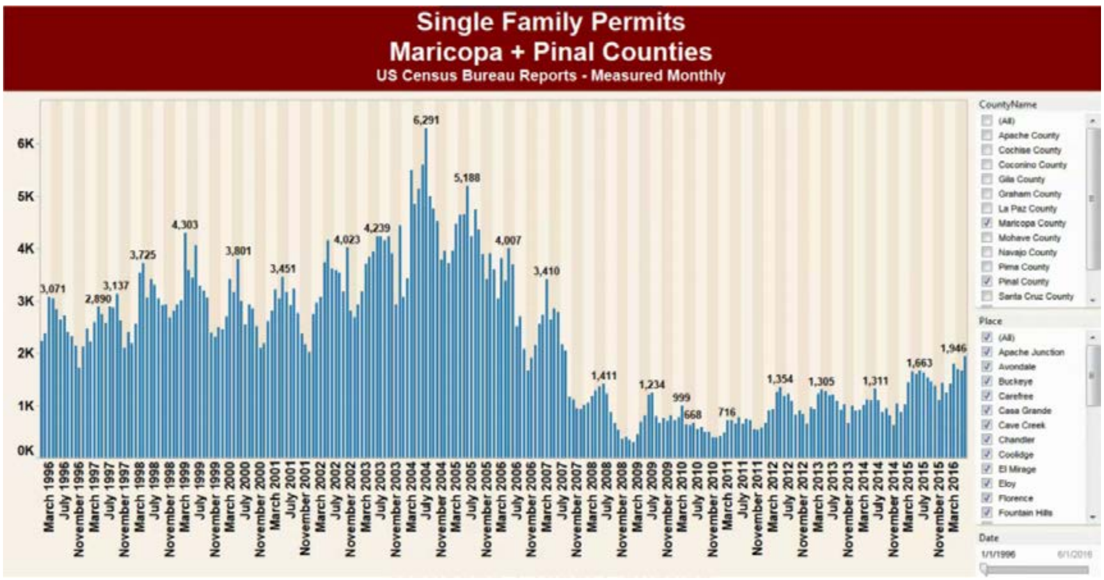
2013 through 2014 saw supply and demand ratios favorable towards sellers, resulting in positive appreciation rates. By 2015 and into 2016, the balance between supply and demand normalized, causing appreciation to flatten.

- ***While most of the market over $1M is flat in appreciation, the $2M-$3M market has seen too much supply—resulting in a depreciating trend.***

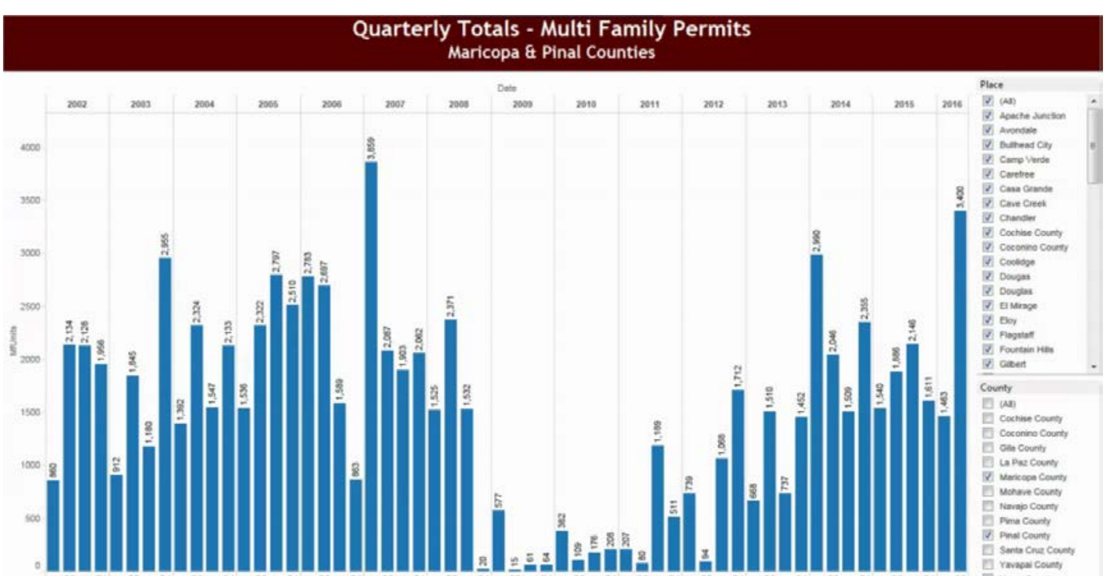
New Construction

At 1,946 permits requested, June was the highest month for single family permits in nearly nine years, according to the US Census Bureau. New home development adds supply in the market to meet the demands of housing, therefore it typically stabilizes appreciation rates by giving buyers more choice and sellers more competition. During and since the recession, home builders have focused their products on move-up and pre-luxury inventory due to increased costs for land, labor and materials. As a result, appreciation rates for properties sold between $300,000 and $500,000 have been more subdued at 2% compared with appreciation rates for those sold under $300,000.

- ***The top 3 cities for new single family permits are Phoenix, Mesa and Gilbert.***



Multifamily permits also saw a second-quarter spike this year. Not surprisingly, Phoenix is by far the number-one city for multifamily permits, followed by Tempe and Gilbert. Phoenix's high number in relation to the other cities is primarily due to an abundance of smaller infill projects happening in central areas such as downtown, the Central Corridor, Camelback Corridor, and South Scottsdale. Tempe and Gilbert have larger projects planned and therefore have fewer permits in relation to the number of units to be added.



ARTICLES OF INTEREST:

Aug. 4, 2016 - SFGate

The 20 worst U.S. cities for renters (including 2 from Bay Area)

According to WalletHub, the best cities for renters can be found mostly in the Sun Belt, especially the Sonoran Desert. Arizona's Valley of the Sun claimed six of the top-10 places: Phoenix (9); Peoria (8); Gilbert (5); Tempe (4); Chandler (3) and at No. 1, the snowbird mecca of Scottsdale.

Aug. 8, 2016 – Phoenix Business Journal

Golf Magazine: 12 Arizona hotels are some of the best golf resorts in the country (SLIDESHOW)

Aug. 12, 2016 – Phoenix Business Journal

Mega-pharmacy with 550 jobs opening in Chandler

Aug. 16, 2016 – Phoenix Business Journal

California screaming: Here's how many jobs and capital investment Arizona gained from the Golden State in the last 8 years

Aug. 17, 2016 – Phoenix Business Journal

The big pivot: Phoenix-area hiring makes big turn to high-value jobs

Aug. 19, 2016 – Phoenix Business Journal

Project Watch: We've updated our map with new developments across the Valley