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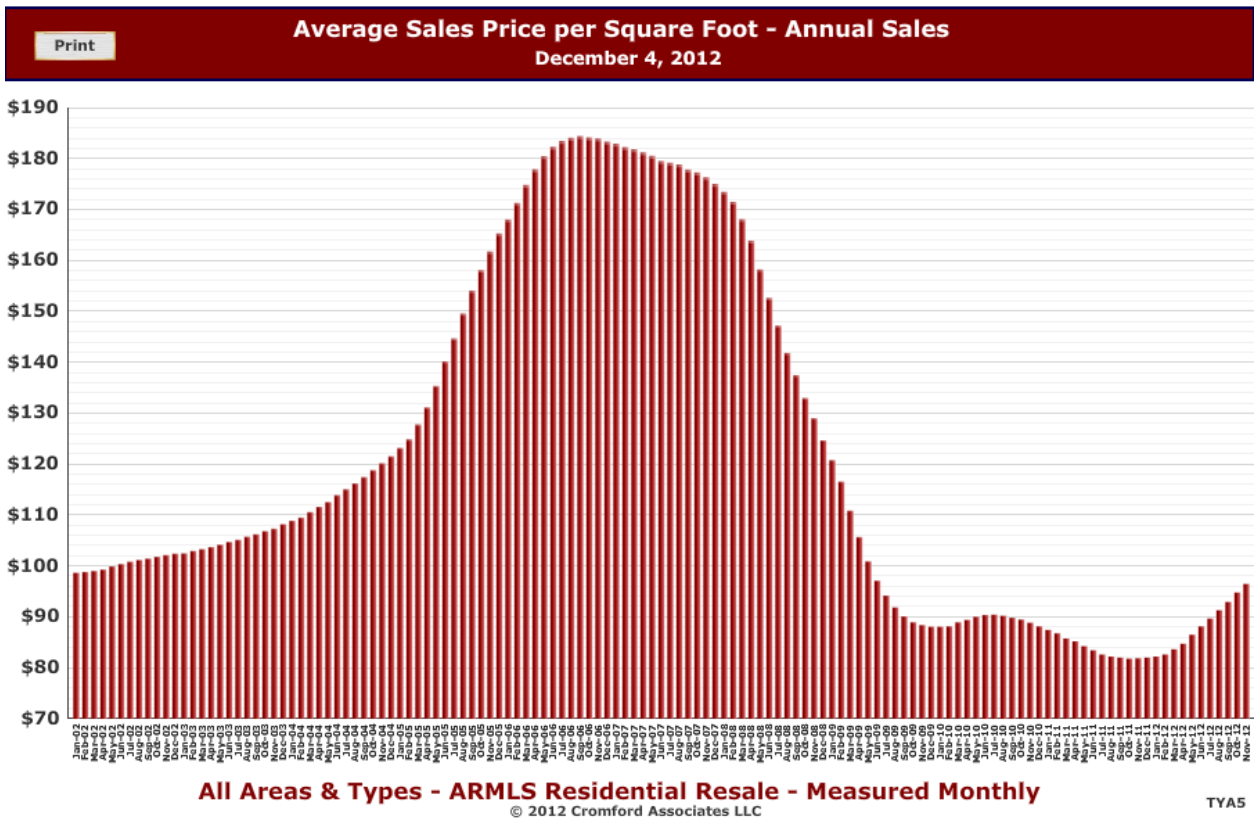
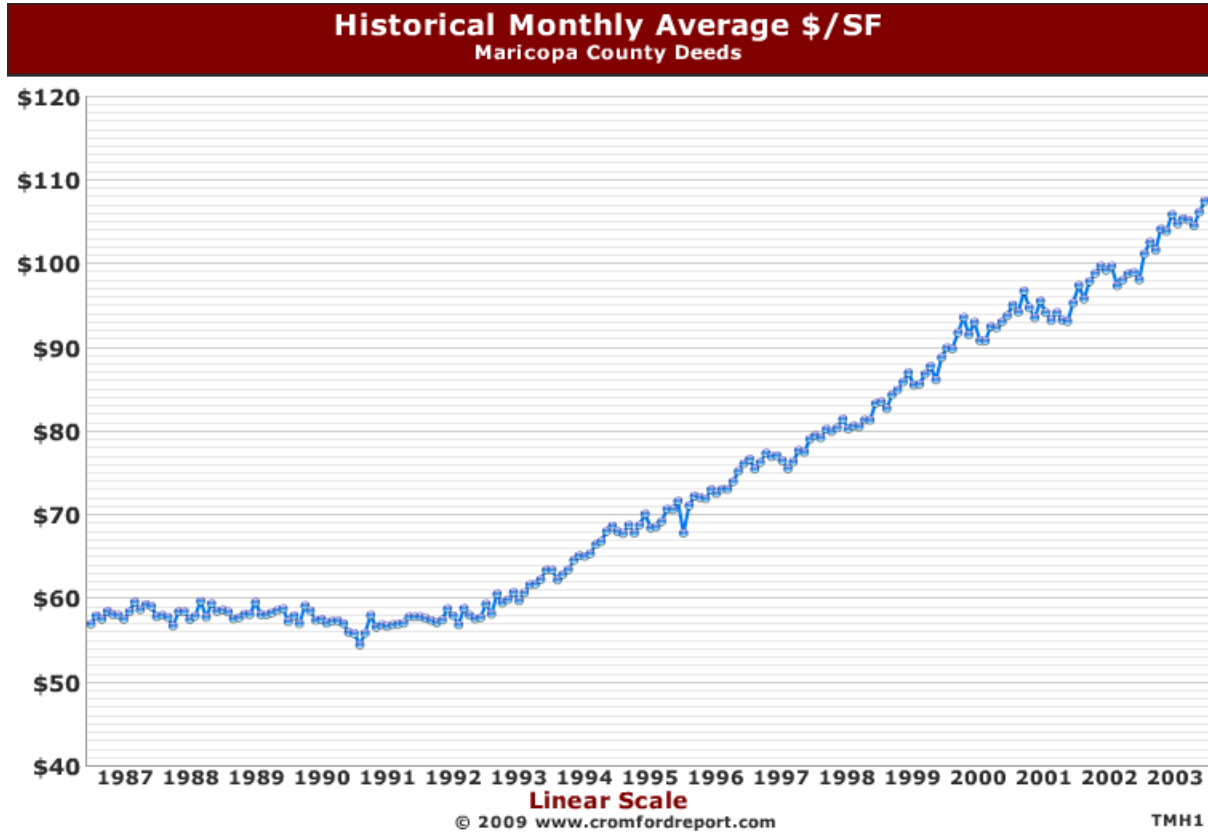
Market Update

To keep things in perspective, it is important to look at the historical long term trend for the real estate market in the Greater Phoenix area.

Using the charts on the next page below, we can see that using annual sales data, and based upon the average sales price per square foot home prices bottomed out in October 2011 at \$81. At the end of November of this year, this had risen to \$96 per sf or an increase of 18.5%. This price point is the same as we saw in early 2001 nearly 12 years ago and is still 48% below the high of \$184 per sf we saw in September 2006.

This suggests that while the market has started its recovery, homes are still priced well below historical norms for the greater Phoenix area. During the period 1993-2003 which was considered a normal market and before the effects of the subprime mortgages of the 2004-2007 time period, home prices rose approximately 82% from an average of \$60 in 1993 to \$109 per sf in 2003. This represents an annual compound growth rate of 6.2%. Assuming this growth rate continued (and therefore we did not experience the abnormal growth and subsequent contraction of prices due to the effect of subprime mortgage lending)

for the period 2003-2013, today we would be seeing an average price per sf of \$175. Keep in mind this price includes the cost of land and construction.



Market Summary for Beginning of December 2012

Here are the basic Arizona MLS numbers for December 1, 2012 relative to December 1, 2011 for all areas & types:

- Active Listings: 18,122 versus 19,377 last year - down 6.5% - but up 7.0% from 16,939 last month
- Pending Listings: 9,170 versus 10,171 last year - down 9.8% - and down 6.3% from 9,785 last month
- Monthly Sales: 6,718 versus 7,127 last year - down 5.7% - and down 7.4% from 7,255 last month
- Monthly Average Sales Price per Sq. Ft.: \$105.92 versus \$83.50 last year - up 27% - and up 2.0% from last month
- Monthly Median Sales Price: \$155,000 versus \$115,000 last year - up 35% - and up 3.3% from last month

The advance in pricing is strong, but is accompanied by a rise in supply and a weakening in demand. Both of these are working together to lessen the upward pricing pressure. That pressure still exists for the market as a whole but each month that goes by is releasing some of that pressure. This means we stand a reasonable chance of going back to a normal balanced overall market with fairly stable pricing in the not too distant future. The speed will depend on how sentiment develops. Between November 1 and December 1, 2011 we saw the number of active listings fall by 1.5%. This year they grew by 2.7% during November instead. This confirms what we would expect - that higher pricing is bringing out more sellers, particularly those who are no longer underwater and investors who want to lock in some profits. This has a little added urgency if those investors are concerned that they may pay higher taxes on those profits in 2013 than 2012.

Short sales are declining in number - we had the lowest number close in Greater Phoenix since February 2011. November was another short month for working days with only 19 like September. October had 23 so had the capacity for a lot more sales, foreclosures, in fact, everything. In that context it was October where we saw a significant fall in foreclosure activity. November merely maintained similar levels to the previous month.

With over 1,000 new home sales in the Greater Phoenix area, most of which did not get listed on ARMLS, we are seeing the new home market gain in market share. The Arizona MLS is no longer measuring more than 90% of sales as it was during the REO boom, and with private sales, trustee sales and pocket listings all happening outside of its realm, ARMLS is now down to some 70 to 80% of the transactions we see recorded at the county level each month.

Looking ahead, we expect to see overall prices continue to rise until mid December. At that point we expect little further movement during the final 2 weeks of the year. The future beyond that is rather murky while we wait to see if the country jumps off or avoids the "fiscal cliff". The housing market will be influenced by how well or badly the stock market and economy reacts to this. Public sentiment may also move sharply lower or higher depending on the outcome.

Mid December Update

For the monthly period ending December 15, we are currently recording a sales \$/SF of \$108.47 averaged for all areas and types across the ARMLS database. This is 3.69% higher than the \$104.61 we now measure for November 15. Of these, REO (Foreclosed Properties) sales across Greater Phoenix averaged \$86.04 per sq. ft. (up 1.9%). Pre-foreclosures and short sales averaged \$82.84 (up 1.6%) while normal sales averaged \$120.74 (up 2.6%). The market share of normal sales rose sharply again over the last 30 days moving from 60.8% to 65.1% of sales. REOs dropped slightly from 13.2% to 13.0%. Short sales and pre-foreclosures fell dramatically, moving from 26.0% to 22.0%. The loss of market share from short sales & pre-foreclosures to normal sales helped push the overall average much higher.

On December 15 the pending listings for all areas & types showed an average list \$/SF of \$99.96, 0.9% above the reading for November 15 - so pending \$/SF has risen more slowly over the last month than it did the previous month. Among those pending listings we have 45.8% normal, down from 47.6% last month, a higher 14.6% in REOs and a higher 39.6% in short sales and pre-foreclosures. The average pricing for pending listings on December 15 in each category was: \$124.03 normal, \$76.35 short sales & pre-foreclosures and \$79.95 for REOs. The pending \$/SF is rising fastest for normal listings but fell back for REOs over the last month. These changes send mixed signals. The increase in the percentage of pending REOs will tend to drag the overall average lower, but the bulk of sales are normal and pending prices for these are still increasing fast.

Our new mid-point forecast for the average monthly sales \$/SF on January 15 is \$109.39, which is 0.8% higher than the December 15 reading, and we have a 90% confidence that it will fall within $\pm 2\%$ of this mid point, i.e. in the range \$107.20 to \$111.58. This suggests a significant slowing in the rise of average \$/SF over the next 31 days following a very strong 3.7% rise over the last month. An increase of 0.8% is quite respectable for normal times, still implying a 10% appreciation annual rate. However it is relatively tame compared with what we have seen for most over 2012.

U.S. Financing Options for Canadians

With record low interest rates still hanging around, many Canadian buyers may want to consider financing a home with a U.S. lender. We have worked very hard to establish relationships with U.S. lenders and as a result have several financing options for our clients.

Financing for a second home or vacation rental

We have several options for financing for this type of home use where a second home is defined as used by the owners at least 1 week per year and can be rented out the rest of the time.

Mortgage terms generally require 25-30% down with rates currently as low as 3.5% for a fixed rate fully amortized loan that is completely open to pre-payment with no penalties.

Investor loans for full time rentals

We have two sources of financing for investors purchasing single family homes to rent out on a full time basis.

The first loan program requires 35% down for a fully amortized 5 year fixed rate loan. The interest rate is approximately 5%.

The second loan program requires 50% down for a 7 year fixed rate loan based upon a 15 year amortization. The current interest rate is approximately 4.5%.

Property Management

There are many property management companies serving the Greater Phoenix area and two that we recommend for full time rental and two for vacation rental. Maureen and I own five rental properties ourselves and never have to find, screen or deal with any tenant issues. We feel strongly that a good property manager is worth their weight in gold and is one the keys to a successful investment.

A good property management company will:

- Advertise and promote your property through a combination of their own website, community newspapers and possibly the MLS. They may also charge different fees depending on the level of exposure you require.
- Fix up the property if so required. Of course it the owners decision who they use but often the property management company can things done at a lower cost.
- They will screen tenants including credit checks and references.
- Negotiate a lease on your behalf

- Handle any service issues regarding the property. They will require a repair/maintenance account be setup by the owner with typically \$400 deposited. They will also recommend a threshold (usually about \$200) below which they do not need to contact the owner for approval for repairs. Tenants are also required to put down a damage deposit that is in the neighbourhood of one month's rent.
- Typical costs vary but are usually about 10-11% of the rental income for full time rental homes renting in the \$1,000 per month range and less as a percentage for higher rent properties. Vacation rental fees generally run 20-30% of the rental rate depending upon the company used.

Arizona for Canadians has been able to negotiate lower rates for our clients because of the large number of clients we refer. One of the companies we highly recommend offers the following terms and information on their business to our clients:

PREFERRED FEE STRUCTURE FOR ARIZONA FOR CANADIANS CUSTOMERS.

- \$25 INITIAL ADVERTISING FEE - \$300 FOR FUTURE ADVERTISING
- \$600 NEW LEASE FEE
- \$50 FLAT MONTHLY MANAGEMENT FEE
- \$250 LEASE RENEWAL FEE
- 30 to 45 day average vacancy time
- Receiving 80 -110 tenant inquiries per day
- Less than 6% vacancy rate!
- Online real time statements
- Low start up fees and competitive fee structure
- Over 12 years in business

Steps in the Buying Process

- Determine primary use for the home
- Arrange financing
- Determine price range
- Determine best locations and amenities desired
- Get set up on a listing search
- Plan trip to view homes (2-3 days minimum)
- Write a Purchase Offer
- Negotiate and Write Counter Offers
- Open Escrow with Title Company
- Wire Earnest Money Deposit
- Setup U.S. bank account
- Home Inspection/ Issue Request for Repairs
- Order Homeowner's Insurance Policy
- Wire closing funds
- Close Escrow
- Set up home
- Contract for Property Management if appropriate

Services we provide our Canadian clients

- Specialists in buying and selling vacation homes
- Investment properties – Rental and Lease Option
- Trustee Auction services
- Property Management
- Financing for Canadians
- Cross Border Tax and Estate Planning
- Home and Auto Insurance
- House sitting services
- Lawn and Pool services
- Home renovation
- Listing services

We have been featured in major media stories in Canada in the Toronto Star, Globe & Mail, CBC National News, CTV, Canadian Real Estate Magazine, The Business News Network and in the U.S. on Fox News, NPR Radio, USA Today and The Arizona Republic.