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Phoenix – Rises from the ashes to lead U.S. Real Estate Recovery

Globe and Mail article from May 27

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In hard-hit cities like Phoenix, the home market rises

By PAUL WALDIE
From Monday's Globe and Mail

Foreclosures are down and bidding wars are back as U.S. real estate begins to bounce back in areas like Arizona, Miami and southern California

The Phoenix real estate market is suddenly experiencing something it hasn't seen in years: Bidding wars. Phoenix used to represent just about the worst of the U.S. housing market, with suburbs full of empty homes and foreclosures running so high that investors gathered like vultures at the county courthouse to snap up distressed properties.

But like its namesake, Phoenix's housing market is rising. Foreclosures have dropped 20 per cent in the past year and the median house price has climbed about 25 per cent, making the city one of the hottest real estate markets in the U.S. But perhaps the most telling sign of a recovery is the return of heated bidding that has been a long time coming for agents like Maureen Porter. **(Editor's Note: Maureen is Co-founder of Arizona for Canadians)**

"A good house in a good neighbourhood will go on the market for two days and they'll already have five or 10 offers," Ms. Porter said. "When I started my business [four years ago] there were around 56,000 homes for sale in Maricopa County [which includes Phoenix]. Now there's about 12,000 homes for sale."

Ms. Porter said she recently took two clients from Vancouver to look at a 70-lot housing development in Goodyear, a community outside Phoenix. "It was all dirt, there were maybe two homes built," Ms. Porter recalled. "We walked into the presentation centre and everything but two lots were sold out."

The housing market is showing signs of life across the U.S., with existing home sales and the median price up about 10 per cent year-over-year, hitting levels not seen since the summer of 2010. Sales and prices have been rising steadily for months, proof that the long-suffering real estate sector may have finally turned the corner. Buyers are returning thanks to an improved employment picture, record-low mortgage rates and near bottom prices.

Housing is a critical component to the U.S. economy and improvements in the sector usually lead to a boost in consumer confidence, employment and spending. All of which is good news for the Canadian economy as well. The real impact of the recovery can be seen in places like Phoenix, Miami and southern California, which were among the hardest hit during the recession. The supply of homes for sale has dropped in all three locations as banks move quickly to unload troubled properties, often through "short sales" where mortgage holders get permission from lenders to sell their property for less than the amount owed. Banks often prefer short sales to foreclosures because they are a faster way to deal with borrowers.

In Miami, the median price is up 15 per cent from a year ago and the occupancy rates in downtown condominiums is 94 per cent. Southern California has a four-month supply of homes for sale, roughly two months less than what is considered a healthy market, and foreclosure sales have reached a four-year low.

Phoenix offers some of the most dramatic evidence of the turnaround. This is a city where house prices fell by up to 50 per cent during the recession and people walked away from their homes in droves, leaving vast stretches of empty neighbourhoods. Today the number of homes listed for sale has dropped by 64 per cent in the last year and foreclosures have fallen by 20 per cent. The market has tightened up so much that prices are jumping 5 per cent each month and buyers are competing fiercely for just about anything that's available.

"We've now got a fully-fledged buying frenzy going on while people try to buy something before they miss the boat," said Michael Orr, director of the Center for Real Estate Theory and Practice at Arizona State University. Last week there were roughly 12,000 homes listed for sale across the city. That compared to more than 50,000 around the same time last year.

Despite the current boom, the market still has a long way to go. The median price is now about \$135,000 (U.S.). That's still well below the peak in 2006, when it reached \$265,000, and it puts prices at about the same level as in 2000. And although the number of existing homes sold in April across the country rose to an annualized rate of 4.6 million, economists say a healthy U.S. housing market would see almost 6 million sales of existing homes a year.

Much of the activity is also being driven by outsiders, many from Canada, eager to snap up investments. In Phoenix, the number of "investor flips," people who buy houses and then re-sell them quickly for a profit, has increased 31 per cent year-over-year, according to Mr. Orr.

But with prices rising quickly, good deals are harder to find. Three years ago, dozens of investors lined the steps of the courthouse in downtown Phoenix to bid on foreclosed properties, many going for well below \$100,000. This week only a handful of bidders showed up for the auction and just four houses sold.

Case-Shiller Index: Phoenix home prices up 6 percent

Phoenix Business Journal by Mike Sunnucks, Senior Reporter

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New S&P/Case-Shiller home prices are out this morning and they show Phoenix with the best gains Nationally for March. The home price index shows Phoenix with a 6.1 percent gain in March compared to March 2011 and a 2.2 percent increase from February 2012.

That is the best performance of the major U.S. markets tracked in the Case-Shiller Index. Nationally, the numbers are not as good with the home price index dropping 2 percent in March compared to February and 1.9 percent compared to March 2011.

Los Angeles, Las Vegas, Chicago and San Diego all posted declines. The Phoenix market is still trying to get back to pre-recession levels and recent gains have been spurred by heavy investor activity.

What Does All This Mean for Canadians

1. The market has bottomed out due to fewer foreclosures and homes available for sale.
2. For those looking to purchase a home for retirement, the time to buy is now before home prices rise considerably.
3. Those looking for a winter residence can get into the market at prices not seen since the late 90's with U.S. financing options at their lowest rates in history.
4. For some who are looking towards retirement, take advantage of the low prices and rent the home out taking advantage of the strong rental market, thereby generating strong cash flow until such time as you are able to spend more time in the sunny south.
5. For investors, take advantage of the high positive cash flow in a market on the way up unlike the Canadian market which is considered overvalued.

It's time we took a look at price movements by price range. So if we compare the average price per sq. ft. for April 2012 with that for April 2011, here are the results.

Price Range	Monthly Sales \$/SF April 2012	Monthly Sales \$/SF April 2011	% Change
Under \$25K	\$20.80	\$18.73	11.1%
\$25K-\$50K	\$32.95	\$29.72	10.9%
\$50K-\$75K	\$46.67	\$41.13	13.5%
\$75K-\$100K	\$54.29	\$49.25	10.2%
\$100K-\$125K	\$63.62	\$60.39	5.3%
\$125K-\$150K	\$72.23	\$68.05	6.1%
\$150K-\$175K	\$78.35	\$76.38	2.6%
\$175K-\$200K	\$86.43	\$84.90	1.8%
\$200K-\$225K	\$94.63	\$87.98	7.6%
\$225K-\$250K	\$101.29	\$96.38	5.1%
\$250K-\$275K	\$103.10	\$98.34	4.8%
\$275K-\$300K	\$110.21	\$102.57	7.4%
\$300K-\$350K	\$116.19	\$112.37	3.4%
\$350K-\$400K	\$124.24	\$119.95	3.6%
\$400K-\$500K	\$139.26	\$132.68	5.0%
\$500K-\$600K	\$161.24	\$152.63	4.1%
\$600K-\$800K	\$181.53	\$170.85	6.0%
\$800K-\$1M	\$209.77	\$191.69	9.4%
\$1M-\$1.5M	\$233.90	\$237.88	-1.7%
\$1.5M-\$2M	\$282.96	\$260.26	8.7%
\$2M-\$3M	\$350.94	\$352.06	-0.3%
Over \$3M	\$359.10	\$400.97	-10.4%

Popular Delusions

- A glut of foreclosed homes overhangs the market
- A new wave of foreclosures is coming
- Shadow inventory is big, scary and out to get you!!!
- Prices are still declining
- Short sales take forever and rarely succeed
- 60% of Phoenix homes are underwater

These JUST AIN'T SO in Greater Phoenix today

Predictions for 2012

(warning – these may or may not come true)

- Phoenix will not behave like the national market
- Case-Shiller Index® for Phoenix will rise for the next 2 months
- Supply shortage will get worse below \$500,000
- Foreclosure levels may get close to normal by end of year
- Distressed properties will get much scarcer
- Lenders will slightly ease loan underwriting
- Buyer sentiment will improve
- Builders will start to re-enter the market
- Pricing will get more interesting

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These were our predictions at the beginning of the year and all are coming true.

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 Vacation homes and vacation rentals**
- **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.