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## PHOENIX MARKET WATCH:

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# Foreclosure Resales Driving Phoenix Home Prices Down

The Phoenix housing market suffered another record-breaking milestone in July. According to the recently released Standard & Poor's/Case-Shiller 20-city housing index, the Phoenix housing market experienced a 29% price drop from July, 2007 to July, 2008. This price decrease was the second worst in the survey, behind only Las Vegas where prices fell by 30% in the same time frame. A close look at the Phoenix housing market sales data provides a clear explanation for this downward pricing trend.

### Effects of foreclosure volume on home pricing

Since the housing market slump began, Phoenix has consistently been among the major metropolitan areas experiencing the highest foreclosure rates. This is a predictable consequence of the unsustainable sales activity and price appreciation that occurred between 2004 and 2006. The sheer volume of investor/speculator sales that occurred during the boom created a large pool of homes at high-risk of foreclosure as these homes were purchased for little to no money down with very little direct risk to the investors. When the market turned and these speculators realized they were not going to profit from the resale of these homes, letting them go back to the lenders was an easy out. Add to the investor/speculator pool of homes, the homes foreclosed as the result of ARMs resetting and the effects of other "creative" financing and it is easy to understand why Phoenix consistently ranks in the top 5 major metropolitan areas for residential foreclosures.

As banks and mortgage lenders continue to dump these foreclosed homes into the resale market at cut-throat pricing to get them off their books, the median home price in the Phoenix metro area continues to decline. In early 2007, when only 5% of the homes sold in the Valley were foreclosed homes, there was very little effect on home pricing. But 2008 has been a substantially different story. In August, 2008, foreclosed homes accounted for 44% of the total homes sold in the Valley. And year-to-date, 41.6% of all home sales in Phoenix have been foreclosed homes. Throughout this period, the foreclosed homes have been selling for approximately 30% less than the non-foreclosed homes. Given the high percentage of homes now selling in the Phoenix resale market that are foreclosed homes, it is easy to understand why Phoenix has experienced a 29% price drop between July, 2007 and July, 2008. Further, there is no reason to expect any positive change in this trend until the foreclosed home inventory is substantially reduced.

Sources:

*Standard & Poor's/Case-Shiller housing index*  
*ASU Realty Studies, Morrison School of Management*  
*RealtyTrac, Inc.*

## About Meyers Builder Advisors

Meyers Builder Advisors brings together a talented pool of consultants with a strong understanding of the homebuilding industry and the market dynamics that drive it. Combined, the team boasts over three decades of market experience, with a wide range of services including site specific analysis, product development, strategic planning and land acquisition services. The group has advised on a wide range of residential product types throughout the United States and has successfully assisted a long list of builders, developers, and financial institutions.

### For more information, contact –

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