The top real estate experts and economists expect to see a strong housing market through the summer. While there is no reason to expect anything but positive growth, there are a number of outside factors that could negatively impact the housing market. It is important to be mindful while being optimistic. Shifts of this magnitude have never happened so quickly and there are no guarantees. This is not the market for “wait and see.”

**The AZ Market:**
***Cromford Market Index (CMI):*** The CMI is the best leading indicator available (balance is 100, above 100 is a seller’s market and below 100 is a buyer’s market. Prices rise at 110 and drop at 90). On March 20, the CMI peaked at 241, and last week it was at 214.3, up from the bottom of 145.2 we hit on May 15 and up over 20 points in the past seven days.

***Supply:*** *Our local inventory has been dropping every day since May 12.* As of last week, our inventory is 54% below normal. In the past seven days we have dropped by 2.4%. Our total active inventory is down nearly 28% year over year. That sounds like a lot; then when we remove under contract accepting backups (UCB) we are down 42% year over year. We desperately need more listings.

***Demand****:* Pending sales are up over 18% month over month and up 15% year over year. Our demand is 1.4% below normal and increased by nearly 10% in the past fourteen days. According to Showing Time, in AZ, physical requests peaked on February 22 and then immediately dropped by 63% through mid-April. We made up that drop and then some and have seen a slight decrease of nearly 2% in the past week. Buyers cannot look at houses that are not for sale. Inventory continues to struggle to keep up with demand.

***Sales & Prices***: Phoenix’s closed sales are down just over 15% year over year; nationally we are down 27% year over year. The median sales price is 8.4% up year over year. Dr. Lawrence Yun, NAR’s chief economist, said, “Sales completed in May reflect contract signings in March and April — during the strictest times of the pandemic lockdown and hence the cyclical low point. Home sales will surely rise in the upcoming months with the economy reopening and could even surpass one-year-ago figures in the second half of the year. New home construction needs to robustly ramp up in order to meet rising housing demand. Otherwise, home prices will rise too fast and hinder first-time buyers, even at a time of record-low mortgage rates.”

***Southeast Valley New Listings, Pendings, and Closings****:* This week over week comparison for Tempe, Mesa, Chandler, Gilbert, Apache Junction, and Queen Creek since March 15 shows this week’s increased demand and decreased supply. Only time will tell if it is pent up demand or actual demand. Based on February’s demand it is likely to be actual. Closings always increase at the end of the month.

**Other AZ News:**

Multi-billion dollar business, Smead Capital Management announced their relocation from Seattle to the Camelback Corridor in Phoenix. Despite higher taxes in Phoenix, the company’s president and CEO, Cole Smead, is moving the company because of the lower cost of living and a larger pool of talent for recruiting in Phoenix.

Arizona gained 45,300 jobs in May, which is impressive since the economy did not reopen until May 16. That is an increase of 2.4% and above the national average. Arizona’s unemployment rate through May was 8.9% which is better than the national unemployment rate of 13.3% through May. Arizona is second to Utah for employment performance year to date, meaning our state retained the second most jobs of any state by percentage of the population.

Phoenix metro is the fastest-growing major employment market in the country year to date. That means we have lost the fewest jobs, as a population percentage, in the country. This could have major implications for real estate. A larger employed population could lead to fewer potential issues down the road.

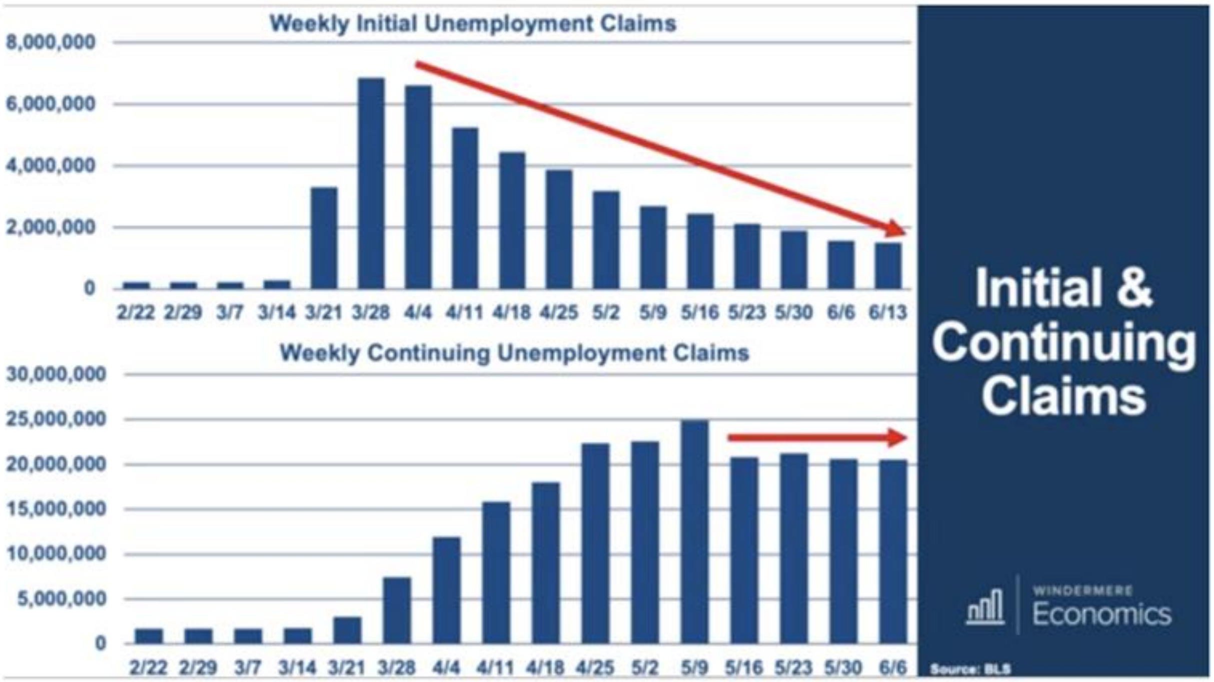
**Economy:**

Prior to COVID we used quarterly economic data to analyze the market and create projections. Today's environment is changing too quickly for that data to be sufficient so we have to use other options, daily or weekly data, known as high-frequency data, which is what we have to use today to analyze the economy. These are high-frequency data points:

- Vehicle sales were up 44% in May over April. Vehicle sales make up about 20% of retail sales. Year over year retail sales are down only 6.1%.
- Hotel occupancy rates reached nearly 42% last week, up from the bottom of 32% the week of May 18. It is still down 42% year over year.
- TSA's weekly traveler report shows the week of June 13 we were down 82% year over year which is better than the 91% year over year drop we had in mid-May.
- According to OpenTable, restaurant reservations are down 64% year over year as of June 18.
- Seated diner traffic in Phoenix is down 51.2% year over year, an improvement from the year over year decline of 84% last month.
- Steve Hafner, the CEO of OpenTable, predicts up to 25% of US restaurants will permanently close. The Independent Restaurant Coalition predicts up to 80% of independent restaurants will close permanently. There are roughly one million restaurants nationwide, that prior to the pandemic employed roughly 15.6 million people.

**National Unemployment:**

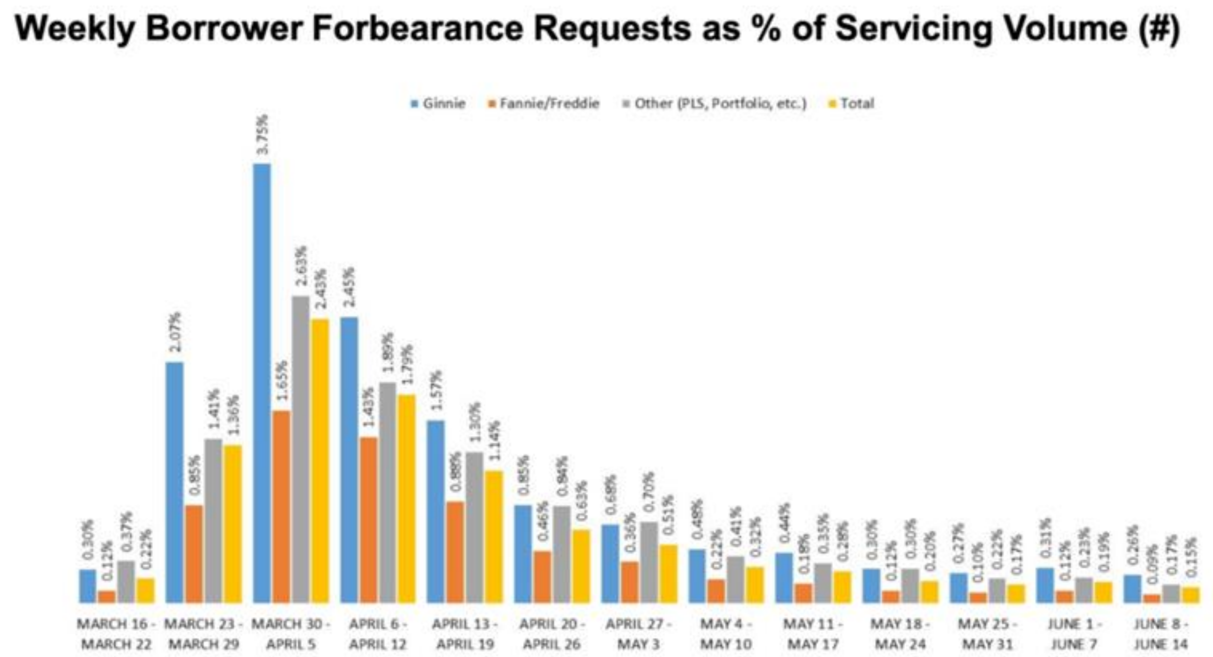
There were 1.4 million new unemployment claims filed last week bringing the total number from mid-March to 47 million. Continuing claims dropped slightly to 19.5 million. Check out this chart from Matthew Gardner, Chief Economist for Windermere.




**Forbearance:**

According to Elliot Pollack, there are roughly 100 million loans, of varying types, on some sort of COVID relief program. This includes 4.2 million mortgages, 79 million student loan accounts, 7.3 million car loans, 1.3 million personal loans, and millions not paying rent or credit card balances.

The good news (for lack of a better term) came from the Mortgage Bankers Association when they announced mortgage loans in forbearance decreased for the first time since March. For the week ending on June 14 total mortgages in forbearance dropped to 4.2 million, down from 4.3 million the week before. 8.48% of mortgages are currently enrolled in a forbearance program.




Courtesy of MBA

**Emerging Trends**

- According to Zillow 2.7 million adults aged 18-25 have moved back in with their parents during March and April. That is a 9.7% increase in April year over year and 1.4% of the national rental market.
- Home improvement spending is up. According to Lending Tree personal loans for home improvement is up nearly 8% year over year.

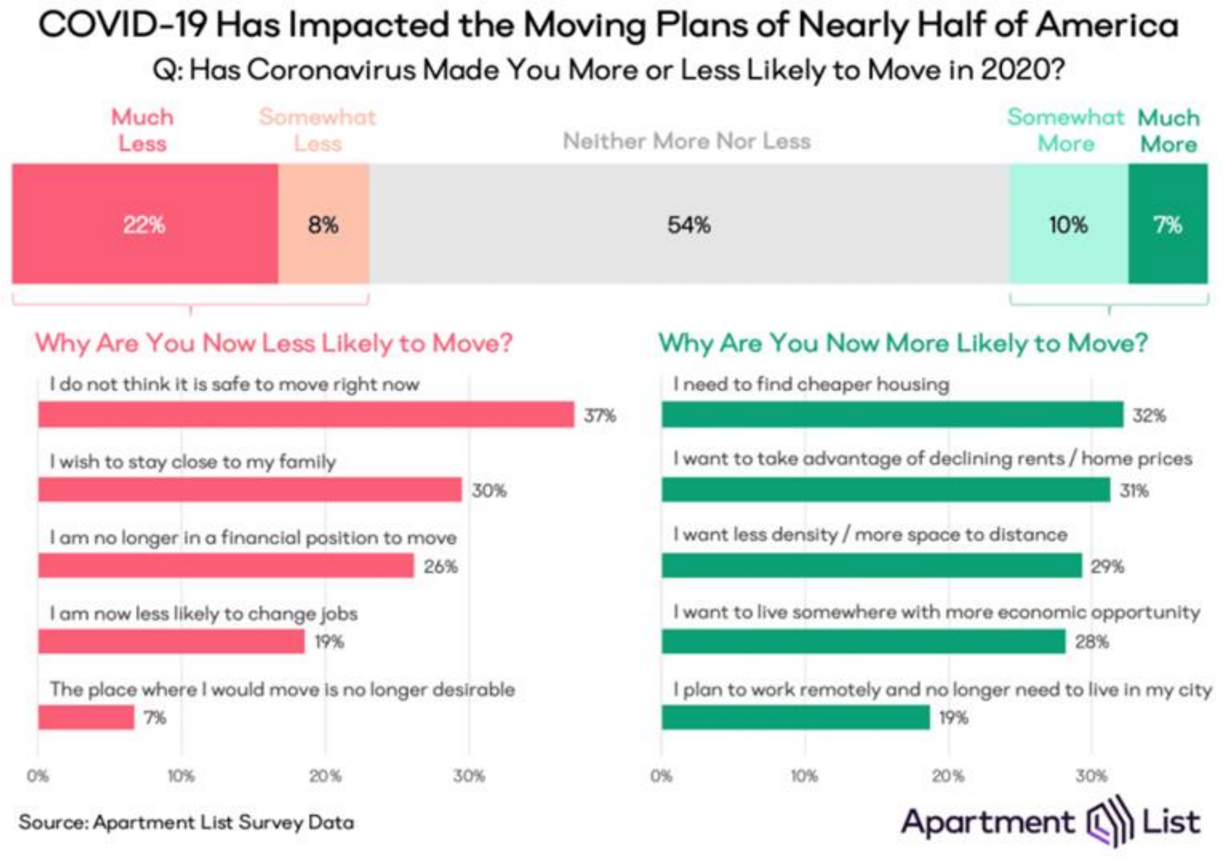
**Reasons for home improvement personal loan application by household income**

| | Less than $25,000 | $25,000-$34,999 | $35,000-$49,999 | $50,000-$74,999 | $75,000-$99,999 | $100,000 or more |
|---|---|---|---|---|---|---|
| Other home improvement-related purpose | 36% | 36% | 43% | 46% | 49% | 54% |
| Home remodel | 20% | 26% | 24% | 26% | 28% | 35% |
| Emergency home repair or appliance need | 41% | 33% | 28% | 26% | 20% | 11% |
| New appliances/furniture, but not due to a repair | 3% | 6% | 5% | 2% | 3% | 1% |

Source: LendingTree survey of 1,236 personal loan applicants.

- Large office buildings and other commercial property owners are re-evaluating policies regarding elevator and stair usage in order to maintain social distancing. High rise office buildings have to come up with new solutions to transport people to their destination.
- Worldwide mass transit demand is down 59% since January.
- According to the Urban Land Institute (ULI), there are about 13.5 million families renting making up about 1/3 of total renters. The ULI is calling for developers to create more rental options for families as this sector is expected to grow.

- Shifts between the suburbs and the city are cyclical. From 2010 through 2018 cities grew faster than suburbs but as time went on the city demand slowly decreased as the suburban demand increased faster. Today's shift towards the suburbs started in 2019 but was significantly escalated by the pandemic.
- Vacation rentals are in high demand. The ones that are doing the best are the ones within about 2.5 hours of a large metro area. More people are driving to their vacations than flying.
- As more businesses relocate to the suburbs, car dependency is expected to grow.
- According to a survey by Apartment List, 30% of respondents said that they are less likely to move due to COVID 19. The report stated, "While Americans have historically moved more frequently than those in many other countries, the U.S. mobility rate has actually been declining for the past 35 years. According to the Census Bureau, over 20 percent of Americans changed homes in 1985; by 2019, that rate had been cut in half."




**Other Real Estate News:**

- 42% of US homes are owned free and clear
- Mortgage loan applications are up 20.1% year over year at an 11 year high.
- There are 128 million houses in the US. 22.7 million are non-owner occupied. 6 million of those are owned by institutional investors like Blackstone. 16.7 million are owned by regular people or small investors.
- Starbucks is changing its café's footprints and closing about 400 locations while adding 300 new locations that do not offer dine-in options.
- Homesnap and eCommission launched a new payment option that allows agents to purchase Homesnap products using future commissions.

- According to HireAHelper.com the moving industry will have a revenue drop this year in a range of 12.2%-19.9% or an estimated $1.5 billion to $2.5 billion.
- The exclusive iBuyer partnership with Offerpad and Keller Williams has ended, likely because of the announcement that Offerpad will be listing and selling along with iBuying, putting them in direct competition with Keller Williams. KW will now also be working with other undisclosed investors for their iBuyer program.

**Final Thoughts:**

Coldwell Banker CEO, Ryan Gorman said, “If you’re contemplating moving, or are one of many people who are contemplating accelerating your life plan a bit, now is a moment to get your property into inventory. Get it prepared, get it priced, and get it on the market.”

Kalim Qamar