

The change from a balanced market to a buyer's market that occurred exactly one month ago has now settled in firmly and those in denial are dwindling in number.

Here are the basic ARMLS numbers for March 1, 2014 relative to March 1, 2013 for all areas & types:

- Active Listings (excluding UCB): 26,589 versus 17,090 last year - up 55.6% - and up 4.1% from 25,541 last month
- Active Listings (including UCB): 29,613 versus 21,460 last year - up 38.0% - and up 4.2% compared with 28,413 last month
- Pending Listings: 6,462 versus 10,300 last year - down 37.3% - but up 12.9% from 5,723 last month
- Under Contract Listings (including Pending & UCB): 9,486 versus 14,670 last year - down 35.3% - but up 10.4% from 8,595 last month
- Monthly Sales: 5,462 versus 6,578 last year - down 16.7% - but up 14.7% from 4,778 last month
- Monthly Average Sales Price per Sq. Ft.: \$127.54 versus \$111.67 last year - up 14.3% - and up 1.7% from \$125.45 last month
- Monthly Median Sales Price: \$180,000 versus \$160,000 last year - up 12.5% - but down 1.5% from \$182,700 last month

The rate of change has slowed. Supply is increasing but less quickly because contract activity is picking up, as is usual for the time of year. Sellers must hope that the number of active listings reaches a peak and starts to reduce in March. That would be normal for a quiet year. However demand remains stubbornly low compared with the normal spring level and there is, as yet, no sign of improvement for sellers except in a few isolated areas.

Sales in February were higher than January (as they are every year) but much lower than in February 2013, giving us the lowest February sales total since 2009. Pending listings have risen since the start of the year but started at such a low point that they are still at their lowest level for early March since 2008. So far this is the second weakest year for pending listings since 2000 (2008 was much weaker still). We still haven't overtaken the pending listings for 2007, which is not a reassuring comparison as 2007 was an awful year for sellers.

New listings have been arriving at a rate which is consistently 9% higher than last year, and the most positive thing we can say about demand is that it has almost stopped getting weaker. The period between March and June almost always sees a down trend in active listings so we would expect to see little movement in total active listings this year until we get to July. If current trends continue we will see another rise in active listings through the second half from July to November. With supply only slightly below normal and demand well below normal we have a classic buyer's market.

In a buyer's market, prices tend to fall, but it takes quite some time to happen as long as we are not facing a lot of distressed properties. We are not. Distress is low and pending foreclosures are continuing to trend lower.

The monthly median sales price is already starting to fall. At \$180,000 for all areas & types it is lower than last month and that was lower than the month before. At the moment \$180,000 looks good compared with \$160,000 for February 2013. However, the median sales price for June 2013 was \$182,500, so in just 4 months we are likely to be reporting a negative annual change. The average price per square foot readings are looking more positive thanks to the relative strength of the luxury market. The luxury market contributes strongly to the average price per square foot but has virtually no influence on the median sales price.

The luxury market is seeing more problems appear. Demand remains stronger than the rest of the market, thanks to the stock market making new highs and lenders falling over themselves to offer jumbo loans at very attractive rates. However supply is becoming excessive and luxury sellers are starting to see too much competition for them to be aggressive in pricing.

The big question is: why is the demand so weak?

The change since last year is much bigger than we all expected and more than just the disappearance of investors.

We don't buy interest rates as the problem. There is probably something more fundamental going on. We suspect it is generational, and we are researching into its numbers. As baby boomers become gradually less important to the market, millennials start to take their place as the most influential generation for sales volumes. Millennials are behaving quite differently from previous generations. Some of these differences are by choice and some out of necessity.

For millennials:

- their ability to qualify for mortgages is often dramatically lower because of the size of their monthly student loan

- debt payment - this often raises their debt to income ratio to unacceptable levels for mortgage lenders
- they already have serious delinquency problems with student loan debt (over 11% of student loans are seriously delinquent and the trend is strongly upwards), impacting their credit score
  - they have seen major problems with home ownership during 2005 to 2011 and not experienced positive home appreciation adding substantially to their net worth
  - they enjoy the flexibility of renting because they change jobs more frequently than earlier generations
  - they do not have a very positive image of Arizona as a destination due to the negative publicity it has received in the media over the last several years
  - on the whole, they appreciate urban lifestyles in dense cities and public transportation, contrary to the suburban preferences of earlier generations
  - they tend to value experiences over ownership, for example they spend more on eating out than previous generations

Phoenix doesn't really have an affordability problem overall, but it has an affordability problem for millennials because on average they have less savings, lower earnings and far lower net worth than previous generations had.

Demand for homes to purchase is increasingly affected by these trends as more millennials join the workforce and more baby boomers leave it.

The typical local millennial is short of money and renting and intends to rent for a long while yet. In a recent survey 75% of millennials responded that student loan debt had affected their decision or ability to purchase a home. 43% stated that it had delayed their decision to start a family. 63% reported that it had impacted their ability to purchase a car. The size of student debt is vastly higher than for previous generations. In the past someone with a student loan was more likely to become a home buyer than average. For the millennials, attending college with a student loan has made them less likely to become a home buyer. So far the recession has meant that their investment in education has not yet paid back in earnings when employed. This is not just a problem for millennials. It is a problem for the entire economy, because there is a lack of ability to spend on the things that drive the economy, including home purchase.

The implication is that we are going to need additional affordable rental accommodation in the medium term. The existing rental supply is getting low at the same time that the for-sale supply is growing.