



# Gainey Ranch Specialists

October 2005

## Is the Real Estate Bubble About to Burst?

Here are the questions everyone is asking. Do we have a real estate pricing bubble here in the Valley of the Sun? If we do, when will it burst? Will we be lucky and experience the "soft landing" where prices simply flatten out slowly over time, giving everyone a chance to adjust? Or will we be even luckier, and see several more years of strong equity growth in the market? The answers are out there — do you have them?

As reported in The Wall St Journal on August 23, economists at PMI Mortgage Insurance Co recently analyzed the housing market, ranking the 50 major metropolitan areas as to their likelihood of suffering a drop in housing prices. The PMI economists used labor market data, median incomes, and mortgage costs in their analysis. Their result — Phoenix ranked 34 out of 50, with a less than 10% chance of suffering a drop in housing prices in the near future.

What cities were most likely to sustain a downturn in housing prices — Boston, Suffolk (New York), San Diego, San Jose, and Anaheim/Irvine (California).

The economists at National City Corp, a major mortgage lender, used different criteria in their analysis and came up with a different list. Their top five danger zones, based on incomes, mortgage data, and population densities, were Santa Barbara, Salinas (California), Naples (Florida), Riverside/San Bernardino, and Merced (California). Phoenix was safe.

Credit Suisse First Boston (CSFB), however, in applying their "risk index", came to a different conclusion. In their analysis, they looked at the popularity of interest-only loans (as a sign that buyers were stretching themselves to afford homes), and the level of purchases made by investors. The result — Phoenix ranked 5th in risk behind Fresno, Las Vegas, Los Angeles, and Riverside/San Bernadino.

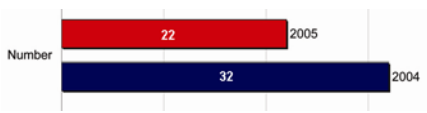
So there they are, the results from three expert "crystal balls". Two thumbs up for Phoenix and one thumbs down. How do you vote?!

## Summer Sales \$ Grow Despite Decrease in Number of Unit Sales

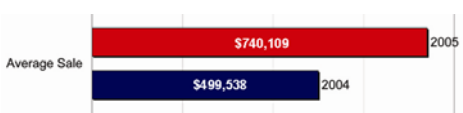
Ask anyone in the real estate industry in the Phoenix metro area about the summer of 2005 and you are likely to hear about a slowdown in the explosive growth of the past couple of years. Few are forecasting a downturn but most see a slowdown in price growth. Rather than rely on subjective opinion about summer of 2005 compared with the previous summer we examined the data to look for specifics. Here are our results when we compared sales in Gainey Ranch in the period May 15 through September 14 this year compared with the same period last year.



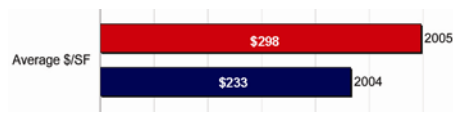
The total dollar sales volume in Gainey Ranch this year was up 1.9% from the same period last year.



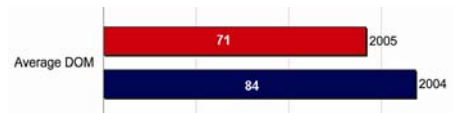
That dollar volume, however, was achieved on the sale of only 22 properties compared with 32 in 2004. That represents a decrease in the number of unit sales of 31%.



That obviously means that the average transaction size increased significantly. Indeed, the average size went up by 48% from just under \$500,000 to \$740,000.



Average price can go up because of either of two factors—an increase in the average size or an increase in average price per square foot. In the case of Gainey Ranch this year much of the increase can be attributed to an increase in price per square foot. In summer 2004 the average price was \$233 per square foot while this year it fell just shy of \$300 per square foot. That is an increase of 28%.



When the number of unit sales are falling one might expect the time on the market to increase. In Gainey Ranch we have seen just the opposite. The average time on the market for properties selling last summer was 84 days. This year that number has fallen to 71 days. It remains to be seen if this trend will hold up in the busy fall season.

It goes without saying that this is a complex market. Selling a home in this kind of market and trying to achieve maximum value requires good analysis of the current values coupled with a marketing program that brings in the widest possible array of potential buyers. Call Frank or Gerry for a review of how we combine internet marketing, quality advertising, personal service and realtor networking to sell Gainey Ranch properties.

