Repeat Sales Index Report
Residential • December 2009

Karl L. Guntermann
Fred E. Taylor Professor of Real Estate

Adam Nowak
Research Associate
Year End Review

The dramatic decline in Phoenix house prices caused by an unprecedented number of foreclosures led to a market turnaround in 2009. Investors and first time home buyers were drawn to the housing market to take advantage of prices that began a steep decline in late 2007. While some measure of price stability is returning, Phoenix remains an artificial market because of the large number of foreclosures and the significant presence of investors. Uncertainty about the timing of recovery in the local economy coupled with new foreclosures, even if at a slower rate, makes it difficult to predict the trend of house prices in 2010 with much confidence. The annual change in the ASU Repeat Sales Index (RSI) depends on current house prices relative to the value of the same houses one year ago. The combination of currently rising prices and the lower values for 2009 that current sales would be compared against, suggests that Phoenix house prices are likely to turn positive by mid-2010. However, it doesn’t follow that prices would continue to rise at long term appreciation rates. The return of more normal housing market conditions which could lead to increases in house values would depend on improving economic conditions that both reduce foreclosures and increase confidence among future buyers.

Summary

The latest data for September 2009 reveals that house prices declined by 23 percent in the Phoenix metro area, which is slightly less than the 25 percent decline for August and 28 percent in July (Table 1). The decline in the index which began in March 2007 has continued for 31 months compared to the 17 month decline in the early 1990s. Preliminary estimates for October and November have prices declining at progressively slower rates, 20 and 17 percent respectively. Since the most rapid declines back in February and March, the index has been declining at a slower rate each month. In contrast to the overall 23 percent annual decline, the September to September decline for lower priced homes was 33 percent compared to 18 percent for more expensive houses. While lower priced houses are declining at a faster rate, the difference between the rates of decline for the lower and higher priced segments has narrowed substantially in recent months, reflecting stronger increases in house prices at the lower end of the spectrum. The market wide increase from August to September was less than 1 percent, similar to the August increase. As the housing market moves toward stability, changes in the index can be expected to vary between slightly positive and slightly negative each month. The total decline in prices from the mid-2006 peak is now 47 percent, which breaks down to 59 and 38 percent declines for the lower and higher priced houses, respectively.

The overall median price for sales that were included in the September index was $130,000, up from $126,500 in August. Preliminary median prices for October and November were $131,000 and $135,000, respectively. Since the bottom in April at $117,500, prices have increased for seven
straight months a total of 15 percent. Recent increases in prices primarily reflect foreclosed houses that have been purchased by investors and first-time buyers taking advantage of the federal tax credit. While the increases reflect a clear trend, this still is an unstable housing market substantially influenced by foreclosures on the supply side and investors on the demand side. The median price for lower and higher priced houses in September increased to $93,000 and $255,000, respectively, with the preliminary median price for lower priced houses up significantly to $102,000 by November.

For the first time, the townhouse/condo RSI is declining at a slower rate like the single-family index. The decline from September to September slowed to -34 percent compared to -36 percent for both July and August and the preliminary decline for November is -28 percent. The median price of townhouse / condo units was $99,500 in September but the preliminary median for October and November is $89,000. While the year-to-year decline in the index may be slowing, townhouse/condo prices appear to be taking a step down after four months with a median price just under $100,000.

### TABLE 1
CHANGE IN RESIDENTIAL PRICES
(Percent)

<table>
<thead>
<tr>
<th></th>
<th>OVERALL</th>
<th>LOWER PRICED</th>
<th>HIGHER PRICED</th>
<th>TOWNHOUSE / CONDO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug. – Sept. 2009</td>
<td>0.2</td>
<td>1.2</td>
<td>-0.1</td>
<td>-1.1</td>
</tr>
<tr>
<td>2006 – Sept. 2009</td>
<td>-47.2</td>
<td>-59.0</td>
<td>-37.6</td>
<td>-48.5</td>
</tr>
<tr>
<td>Median Price Sept. 2009</td>
<td>$130,000</td>
<td>$93,000</td>
<td>$255,000</td>
<td>$99,500</td>
</tr>
</tbody>
</table>

**Regions**

Annual rates of decline vary widely across all five regions but the differential is narrowing slightly. The index declined by 18 percent in the Northeast from September 2008 to September 2009 but by 31 percent in the central region (Table 2). The August decline in the hard hit central region was actually 2 percent less than was reported last month. For the June – September period,
the index increased by 6 percent, far more than in any other region. While all five regions showed similar dramatic increases in house prices from January 2004 to their 2006 peaks (74 – 81 percent), total price declines through September have varied widely. The Southwest is down the most since the peak, 59%, with the Central and Northwest regions also down over 50 percent, reflecting the severity of the foreclosure problem in those parts of the metro area. Even in the Northeast, which has been the least affected, prices have declined by 34 percent from the peak.

![Table 2](image)

**TABLE 2**

CHANGE IN HOUSE PRICES BY REGION

(Percent)

<table>
<thead>
<tr>
<th></th>
<th>CENTRAL</th>
<th>NORTHEAST</th>
<th>SOUTHEAST</th>
<th>NORTHWEST</th>
<th>SOUTHWEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept. 2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug. – Sept. 2009</td>
<td>0.4</td>
<td>-0.4</td>
<td>0.6</td>
<td>1.4</td>
<td>-0.9</td>
</tr>
<tr>
<td>2006 - Sept. 2009</td>
<td>-53.4</td>
<td>-33.8</td>
<td>-45.0</td>
<td>-52.6</td>
<td>-58.5</td>
</tr>
</tbody>
</table>

**Cities**

Variations similar to those observed in the regional data are also apparent in the city data (Table 3). The declines in house prices from September 2008 to September 2009 slowed compared to the August data for all cities. In hard hit Glendale, the annual decline slowed by 5 percent to -26 percent and the total increase in the index for the third quarter was close to 6 percent, far more than for any other city. In four of the eight cities the annual decline is now less than 20 percent. Prices have declined by over 50 percent in Glendale, Peoria and Mesa since they peaked in 2006 with substantial declines in excess of 30 percent in all other cities including Scottsdale / Paradise Valley.
TABLE 3
CHANGE IN HOUSE PRICES BY CITY
(Percent)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CHANDLER</td>
<td>-16.0</td>
<td>0.0</td>
<td>-7.6</td>
<td>-41.0</td>
</tr>
<tr>
<td>GILBERT</td>
<td>-15.2</td>
<td>1.0</td>
<td>na</td>
<td>-44.0</td>
</tr>
<tr>
<td>GLENDALE</td>
<td>-26.3</td>
<td>2.7</td>
<td>-19.6</td>
<td>-54.2</td>
</tr>
<tr>
<td>MESA</td>
<td>-25.7</td>
<td>0.1</td>
<td>-10.9</td>
<td>-50.4</td>
</tr>
<tr>
<td>PEORIA</td>
<td>-22.6</td>
<td>0.9</td>
<td>-7.3</td>
<td>-51.7</td>
</tr>
<tr>
<td>SCOTTSDALE/</td>
<td>-17.9</td>
<td>-0.1</td>
<td>-9.7</td>
<td>-32.8</td>
</tr>
<tr>
<td>PARADISE</td>
<td></td>
<td></td>
<td>-10.5</td>
<td>-36.5</td>
</tr>
<tr>
<td>SUN CITY/</td>
<td></td>
<td></td>
<td>-1.9</td>
<td>-35.6</td>
</tr>
<tr>
<td>TEMPE VALLEY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SUN CITY</td>
<td>-13.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WEST</td>
<td>-17.9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Methodology

The use of repeat sales is the most reliable way to estimate price changes in the housing market because the repeat sales approach eliminates the need to deal with the many issues associated with the heterogeneous nature of housing. Repeat sales can be used to measure the price change of the same housing unit over time. A large number of repeat sales over many years can be analyzed to develop a repeat sales index. In contrast, indices developed using regression analysis provide estimates of price changes over time while simultaneously attempting to control for differences in house characteristics, location, demographics and market conditions, etc. within the model. Regression analysis can and does produce meaningful estimates of price changes but the results are not as reliable as those produced using repeat sales data. An even less rigorous approach would be to simply average sale prices by zip code or some other geographic area where the mix of housing sizes and ages, etc. would be different each month. The percent changes based on medians or averages would reflect not only price changes but also differences in the sizes, ages and other characteristics of the houses sold each month.

The W.P. Carey School of Business – Repeat Sales Index (RSI) tracks very closely to the S&P/Case - Shiller index for Phoenix since the same methodology is employed for calculating both indices. The S&P/ Case-Shiller index has been developed for 20 metropolitan areas and is being
used as a basis for trading housing futures contracts in 10 of those markets. Any differences that exist between the two indices are probably due to the way the data has been cleaned prior to the calculation process. The S&P/Case-Shiller index is proprietary so the cleaning procedure used in connection with that index could not be completely duplicated. However, following S&P/Case-Shiller, the cleaning process used with the ASU - RSI excludes pairs where the first sale involved new construction and pairs where sales occurred within six months of each other. Sale pairs with extremely high or low annual rates of price change are excluded since at least one of the transactions may involve a data error. The same justification is used to drop sales with extremely high or low prices or prices per square foot prior to matching the sale pairs. A more detailed explanation of the data cleaning and calculation process is contained in the ASU-RSI Methodology Report.

The house price data used in the S&P/Case-Shiller index starts in January 1989. Beginning with January 1990, the percent change from the same month in the previous year is reported. The ASU – RSI also begins with January 1989 data so the same percent change calculation also begins in January 1990 and is reported for each month since then. There is seasonality in house price data so month to month changes may not accurately reflect changes in market conditions and would cover a very short time period. Calculating a percent change from the same month in the previous year controls for whatever seasonality may be present in the data. Annual rates of change typically are thought of applying to a calendar year but in this report the annual rates that are reported would be measuring change over the preceding twelve months. To smooth the index, data is included in calculations for the current month and the next two months before it is reported. This means that the rate of return calculated from each sale pair is included in calculations for a total of three months before it is published, which accounts for the difference between the date on the report and the ending date on the graphs.

The S&P/Case-Shiller index is published only for the entire Phoenix metro area. One major advantage to the ASU-RSI is that in addition to the overall index, indices have been calculated for higher and lower priced houses and for smaller geographic areas (regions and selected cities). Price changes for the attached portion of the housing market (townhouse / condominiums) are also presented in a repeat sales index using the same methodology and an index is also estimated for higher and lower priced single-family detached houses. The monthly data are divided into two groups based on the median price of all single-family houses sold. Sales are then paired within each of the two data sets and a repeat sales index is calculated. The metro area has also been divided into five regions and an index has been calculated for each. All repeat sales used in the metro index are included in one of the five regional indices. Indices have also been calculated for eight individual cities where there are a sufficient number of repeat sales a reliable index to be estimated. A list of the cities included in each region is in Table 4.
The graphs contained in this report show the annual rate of change in house prices for the Phoenix metropolitan area on a monthly basis as well as median single-family house prices. Figures 1 and 2 compare the change in the overall, lower and higher priced indices to the overall trend in the index, where the trend was estimated based on the index from January 1989 through December 2003. Figure 3 makes the same type of comparison using the median price of single-family sales that were used to form sale pairs for the current month, not the median price of all sales that occurred during the month. Since each index is a moving three month average, preliminary estimates of the index and future median prices for the entire market are included for the next two months (October and November) in Figures 1-5. Figures 4 and 5 include the new townhouse/condominium RSI and the single-family RSI presented earlier in Figures 1 and 2. Figures 6-13 contain eight graphs that cover two time periods. Four of the graphs present the price changes from January 1990 through September 2009 while the other four graphs cover the current housing cycle beginning in January 2004. Due to data limitations, a reliable index for Gilbert could not be calculated until January 1999 so the annual change for Gilbert in Figures 8 and 9 starts in January 2000.

TABLE 4
CITIES INCLUDED IN REGIONS

<table>
<thead>
<tr>
<th>REGION</th>
<th>CITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTHEAST</td>
<td>CAREFREE, CAVE CREEK, FOUNTAIN HILLS, PARADISE VALLEY, SCOTTSDALE</td>
</tr>
<tr>
<td>NORTHWEST</td>
<td>EL MIRAGE, GLENDALE, PEORIA, SUN CITY / SUN CITY WEST, SURPRISE, YOUNGTOWN</td>
</tr>
<tr>
<td>CENTRAL</td>
<td>PHOENIX</td>
</tr>
<tr>
<td>SOUTHEAST</td>
<td></td>
</tr>
<tr>
<td>------------------------------------</td>
<td></td>
</tr>
<tr>
<td>APACHE JUNCTION</td>
<td></td>
</tr>
<tr>
<td>CHANDLER</td>
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<tr>
<td>GILBERT</td>
<td></td>
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<tr>
<td>HIGLEY</td>
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<tr>
<td>MESA</td>
<td></td>
</tr>
<tr>
<td>QUEEN CREEK</td>
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<tr>
<td>SUN LAKES</td>
<td></td>
</tr>
<tr>
<td>TEMPE</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>SOUTHWEST</th>
</tr>
</thead>
<tbody>
<tr>
<td>AVONDALE</td>
</tr>
<tr>
<td>BUCKEYE</td>
</tr>
<tr>
<td>GOODYEAR</td>
</tr>
<tr>
<td>LITCHFIELD PARK</td>
</tr>
</tbody>
</table>
Figure 1
Phoenix Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - November 2009

Trend
Metro Area
Upper Range¹
Lower Range²

October and November are Preliminary

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data

1: September Median Price $255,000
2: September Median Price $93,000
Figure 2
Phoenix Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 2004 - November 2009

October and November are Preliminary

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data

1: September Median Price $255,000
2: September Median Price $93,000
Figure 3
Phoenix Median Single-Family House Prices
January 1989 - November 2009

Trend
Metro Area
Upper Range¹
Lower Range²

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data

1: September Median Price $255,000  2: September Median Price $93,000
Figure 4
Phoenix Single-Family and Townhouse/Condominium Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - November 2009

Single-Family

TH/Condo

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data

October and November are Preliminary
Figure 5
Phoenix Single-Family & Townhouse/Condominium Repeat Sales Index (RSI)
Percentage Change Same Month, Previous Year
January 2004 - November 2009

October and November are Preliminary

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 6
Regional Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 7
Regional Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 2004 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 8
Chandler, Gilbert, Mesa, & Tempe Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 9
Chandler, Gilbert, Mesa & Tempe Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 2004 - September 2009

Chandler
Gilbert
Mesa
Tempe
Metro Area

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 10
Glendale, Peoria, & Sun City/Sun City Single-Family West Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - September 2009

Glendale
Peoria
Sun City/Sun City West
Metro Area

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 11
Glendale, Peoria, & Sun City/Sun City West Single-Family Repeat Sales Index (RSI) Percent Change Same Month, Previous Year January 2004 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 12
Scottsdale/Paradise Valley & Phoenix Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 1990 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data
Figure 13
Scottsdale/Paradise Valley & Phoenix Single-Family Repeat Sales Index (RSI)
Percent Change Same Month, Previous Year
January 2004 - September 2009

Source: ASU W.P. Carey School of Business; Center for Real Estate Theory and Practice
Data Provided by Ion Data