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## Phoenix Market Watch, September 18, 2008

# Phoenix Down but Not Out!

The Phoenix housing market is currently in a state of shock. Resale inventory remains near record highs, foreclosures are increasing causing home prices to depreciate, the once strong job growth is now waning and we are in the midst of a struggling recessionary economy. Obtaining financing is increasingly difficult as financial institutions are systematically scaling back on loans.

### What happened...how did we get here?

In 2004-2005, historically low interest rates sent the U.S. housing market into frenzy. Housing prices, which historically increased at annual rates in the low single digits, began shooting up at robust double-digit clips. Investors and speculators competing with home buyers in Phoenix caused bidding wars and many homes sold for much higher than their list price. This caused home prices to escalate at unprecedented rates. At the same time, "creative" financing programs exploded as lenders and real estate brokers scrambled to find ways to bring more potential buyers into the market. Lenders turned to the subprime mortgage, a loan for marginal borrowers as a mass-market tool to expand the pool of homebuyers. The easy credit let many buyers into the housing market that otherwise should not have been able to purchase a home. Investors and speculators used the subprime mortgages to purchase multiple properties with little to no money of their own at risk. Many of the subprime loans offered low payments initially, followed by a floating interest rate that changes when market rates adjusted. When the interest rates started to escalate, the loans re-set and many borrowers were unable to make the higher payments which led to record level defaults and foreclosures. Lenders then responded by raising lending standards. When this happened, home sales plummeted, price deflation began and inventory levels began to rise to historic levels.

### Growth fundamentals are still good

Although economic growth will stagnate in the Phoenix area in the short term as a result of the housing slump, the underlying fundamentals for long term growth are still favorable. People still want to move to Phoenix because the metro area is a desirable place to live with a good climate. The Phoenix area also has a relatively low cost of living, especially when compared to nearby areas in the west such as California. In fact, according to the US Census Bureau, in 2007, Phoenix was the second fastest growing metropolitan area in the country behind only Houston, Texas. Such population growth is appealing for relocating businesses because Phoenix offers a quality educated work force and lower tax burdens than many other areas that are competing for business relocations.

In wake of recent events such as the possibility of a national recession, the increase in the price of oil as well as the deflation of the housing market we must remember that although the short term prognosis is unfavorable, the basic growth fundamentals are still good which will keep the long term prognosis positive. The Phoenix area will always be a much desired place to live and relocate to and because of this will continue to be one of the top population growth metro areas in the country. When the economy eventually recovers as it always does, these basic fundamentals will continue to fuel job growth and the housing market as it always has.

### About Meyers Builder Advisors

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### For more information, contact –

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