The September Greater Phoenix region housing data are out. And the trend change sharply worse in becoming crystal clear.

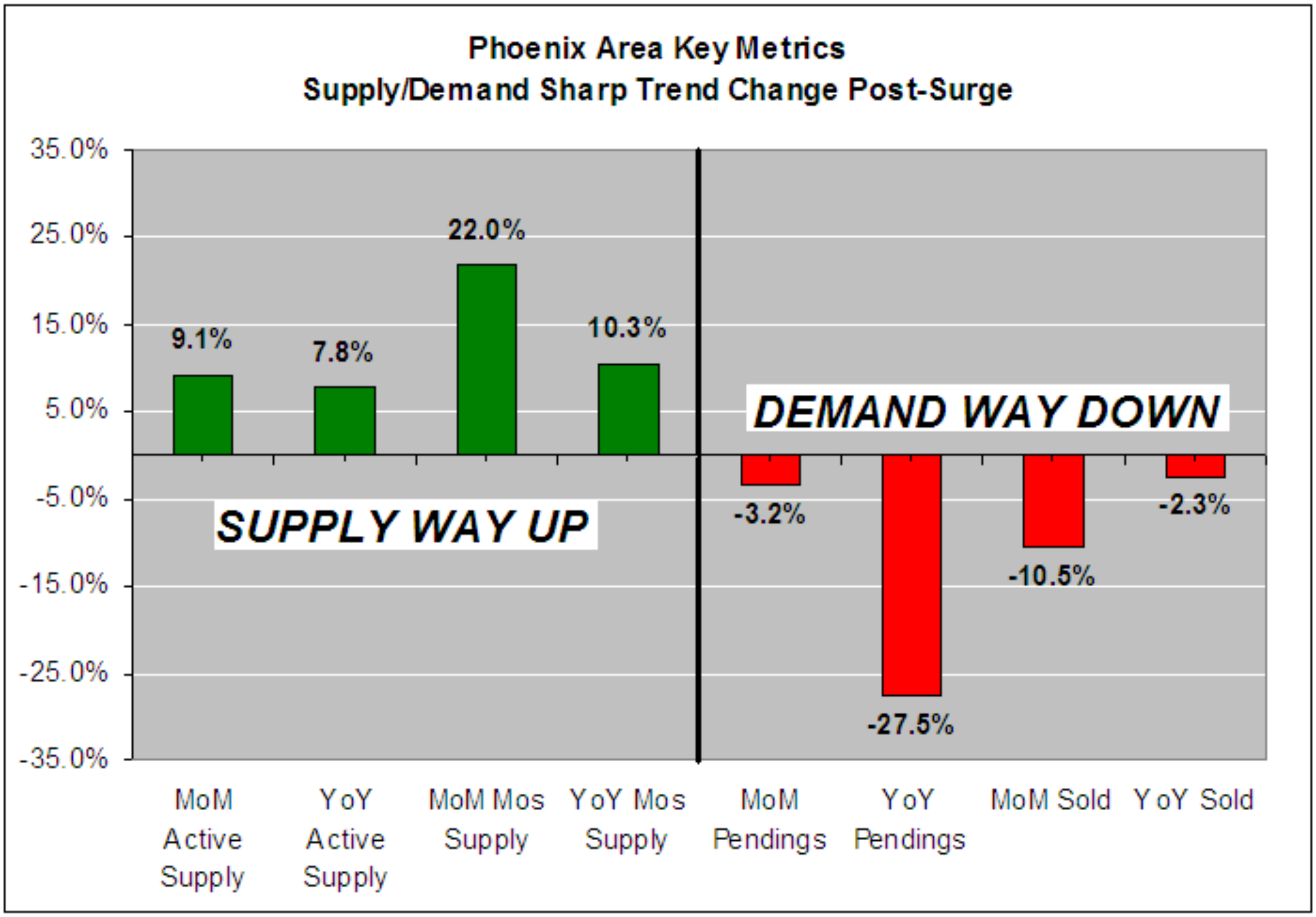
Greater Phoenix is a leading indicating region. It is also a region thought to have a healthy housing market experiencing a "durable" recovery. Moreover, it's a region in which "new-era investors" swarmed for buy-to-flip/rent schemes.

But **post-surge, conditions here have changed dramatically leaving this market on the precipice of a sharp downturn in prices**. Builders and ancillary businesses overly-exposed to this market -- who drank the stimulus-spiked Kool-aid -- are not sitting in an enviable position. Hard trend shifts such as this are observable -- not coincidentally -- in most of the former bubble turned "new-era investor" haven regions.

1) The Phoenix region key metrics are presented below...a 27.5% 'drop' in Pending sales can be called a "plunge". And a 22% 'rise' in Mos Supply -- especially going into the slow Holiday season -- can be called a "surge".

Remember, "listed" supply, referred to herein, isn't the only supply competing for aggregate demand. In this -- and other new-era investor epicenters -- there remain **10s of thousands of properties being readied for rent,** all of which enter the "supply chain". Ah-ha!!! Yet, another form of **"Shadow Inventory"** in the new-era housing market. Never before has freshly rehabbed rentals competed so directly with resale and new house. Moreover, it's inevitable that some percentage of the wall of investor supply just behind this market will make it's way to the "for sale" pool either out of greed or fear.

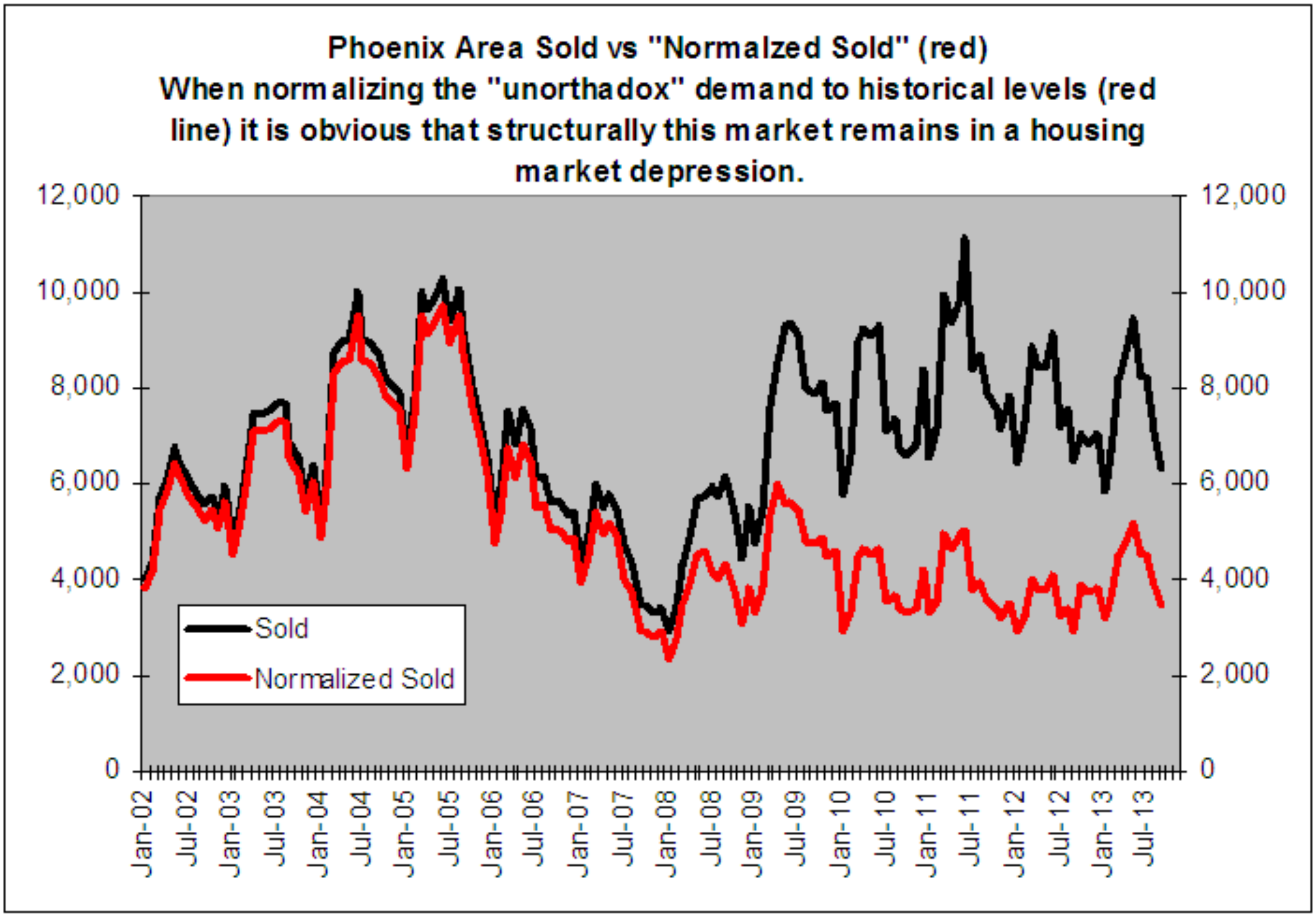
It is highly unlikely prices can hold up under these circumstances. In fact, Phoenix region prices have been largely flat since May. I can easily model a retracement of half the 35% to 40% gains this market has experienced over the past 18 months.



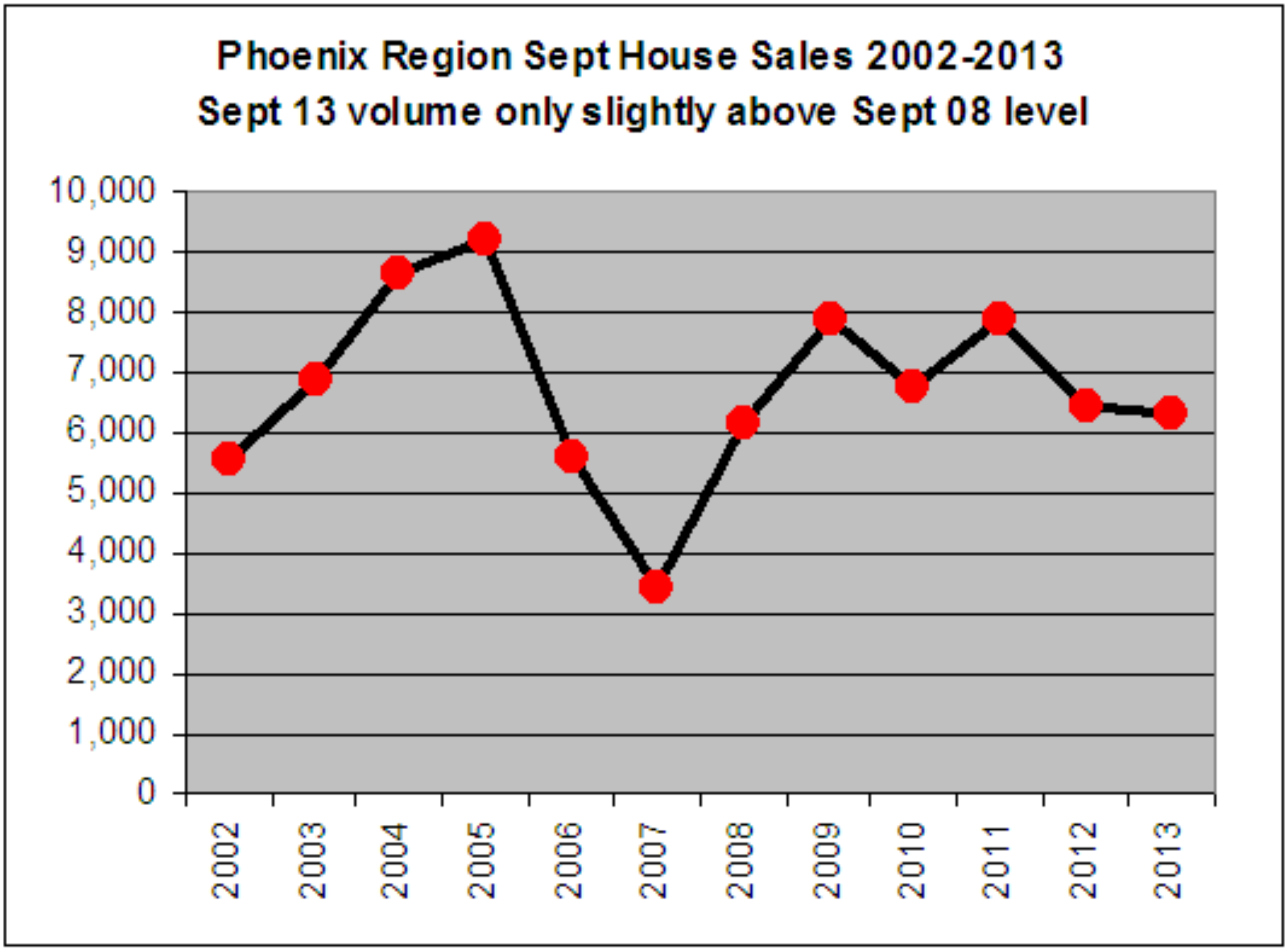
2) Normalized for historical cohort demand participation -- normalizing the "unorthodox" demand -- it is clear this market remains structurally broken.

Bottom line: If not for the unorthodox demand -- that can go as quickly as it came leaving no durable demand foundation -- this housing market would still be in a serious depression. The problem is that demand here has significantly waned post-surge. Builders and ancillary businesses over exposed to this market will disappoint.

Even the headline "sold" numbers (black line) are weak...total sales are back to 2008 levels.



3) Sept 2013 sales back to Sept 2008 levels. In the context of "post-crash" this is extremely weak demand.



Best Regards,

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