

Review of the 2007 Real Estate Market

Regional Residential Northwest Arkansas

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This report reviews the 2007 residential real estate market of 2007 in Northwest Arkansas. It also compares changes in individual cities and the region from 2006 and 2007. The major changes in the region from 2004 to 2007 in relation to volume, units sold, days-on-market and median sales price are evaluated. Finally, I look at the local and national environment in relation to agents and companies for 2008.

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Where We Are

Market Volume 2006-2007

<i>City/Data</i>	<i>Volume 2006</i>	<i>Volume 2007</i>	<i>% Chg</i>
Bella Vista	\$200,351,000	\$156,537,000	-21.9%
Bentonville	\$202,658,000	\$175,914,000	-13.2%
Fayetteville	\$260,167,000	\$255,966,000	-1.6%
Rogers	\$307,330,000	\$252,764,000	-17.8%
Springdale	\$206,462,000	\$177,752,000	-13.9%
Region	\$1,473,321,000	\$1,243,202,000	-15.6%

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Northwest Arkansas' [Sales Volume](#) finished at approximately **\$1,243,000,000** just slightly ahead of 2004. This makes 2007 3rd in the rankings for top volume year. The volume was down about **16%** from last year and down about **20%** from our best year ever in 2005. **Bella Vista** experienced the largest drop at about **22%**. **Fayetteville** came very close to its volume of 2006-down only about **2%**.

Units Sold 2006-2007

<i>City/Data</i>	<i>Units 2006</i>	<i>Units 2007</i>	<i>% Chg</i>
Bella Vista	1,167	923	-20.9%
Bentonville	884	745	-15.7%
Fayetteville	1,226	1,234	0.7%
Rogers	1,436	1,203	-16.2%
Springdale	1,209	1,046	-13.5%
Region	7,838	6,678	-14.8%

Regional [Units Sold](#) was down about 15% over last year. Again, **Bella Vista** suffered the largest drop of about **21%**, while **Fayetteville** was the only major city in Northwest Arkansas that shows a gain in units sold over 2006.

Days-On-Market List to Pending Date

<i>City/Data</i>	<i>DOM 2006</i>	<i>% of Region</i>	<i>DOM 2007</i>	<i>% of Region</i>
Bella Vista	58	0.0%	79	3.9%
Bentonville	63	8.6%	81	6.6%
Fayetteville	43	-25.9%	57	-25.0%
Rogers	74	27.6%	86	13.2%
Springdale	54	-6.9%	71	-6.6%
Region	58	0.0%	76	0.0%

[DOM](#) or Days-On-Market is a measure of the number of days from [listing](#) date to [pending](#) date. Often, it is measured to the date of [closing](#) rather than pending. A home is effectively off the market when a [contract](#) is put on the home. At this point, [marketing](#) time is over and the closing process begins. Thus, the DOM from list to pending measures [market activity](#) and [buyer](#) interest more closely.

The "**% of Region**" column compares the individual DOM for each city with the regional average. In 2006 for example, **Rogers'** [median](#) average DOM was about **28% above** the region at **74** days. Note that **Fayetteville** for both years was **25%** below the region at **43** days and **57** days respectively.

Based upon **volume**, **units sold**, and **DOM**, I would vote for **Fayetteville** as having the best time of it in 2007 compared to 2006.

Total Median Sales Price

<i>City/Data</i>	<i>Median 2006</i>	<i>Median 2007</i>	<i>% Chg</i>
Bella Vista	\$152,000	\$151,515	-0.3%
Bentonville	\$185,000	\$197,900	7.0%
Fayetteville	\$180,500	\$176,875	-2.0%
Rogers	\$168,500	\$165,000	-2.1%
Springdale	\$152,500	\$145,000	-4.9%
Region	\$155,500	\$155,900	0.3%

<i>City/Data</i>	Existing				New Construction			
	<i>MSP 2006</i>	<i>Units</i>	<i>MSP 2007</i>	<i>Units</i>	<i>MSP 2006</i>	<i>Units</i>	<i>MSP 2007</i>	<i>Units</i>
Bella Vista	\$133,000	714	\$135,900	596	\$178,000	453	\$174,000	329
Bentonville	\$157,950	534	\$167,250	406	\$252,052	350	\$256,500	342
Fayetteville	\$159,900	881	\$155,000	808	\$215,500	345	\$196,838	426
Rogers	\$153,900	859	\$159,900	729	\$185,000	577	\$185,000	481
Springdale	\$141,500	883	\$139,900	747	\$179,950	326	\$160,450	310
Region	\$141,521	5,118	\$142,000	4,220	\$182,902	2,720	\$176,675	2,352

Note the Median Sales Price of the region rose slightly in 2007 and stands at **\$155,900**. To have our volume, and unit sales down over **15%** from last year and yet have our median sales price **rise**, deserves further comment. See my discussion on Northwest Arkansas' location further on.

Bentonville supported the largest gain at **7%**. This is due to two factors: 1. The rise in the ratio of [new construction](#) sales compared to existing sales. (**39%** of sales in 2006 were new construction vs. **46%** in 2007). 2. The rise in both existing and median sale prices. The largest loss was in **Springdale** with its median price going **down** about 5%. This was mainly due to an **11% decrease** in median sale price of new construction. (2006 median sales price was **\$179,950**, while 2007 was **\$160,450**). **This should not be interpreted as a lowering of price necessarily. It could also mean buyers for new construction were less interested in high-end homes and bought lower- end homes.**

Fayetteville Has the distinction of selling more new construction units in 2006 than it did in 2007. **No other city accomplished this.**

Changes in the Inventory

<i>City/Data</i>	2006			2007			2006			2007		
	Existing Inventory	Existing Inventory	% Chng Existing	New Cons Inven	New Cons Inven	% Chng NewCons	Total Inventory	Total Inventory	% Chng Total			
Bella Vista	390	488	25.1%	308	241	-21.8%	698	729	4.4%			
Bentonville	338	362	7.1%	524	382	-27.1%	862	744	-13.7%			
Fayetteville	384	559	45.6%	432	465	7.6%	816	1,024	25.5%			
Rogers	791	769	-2.8%	663	471	-29.0%	1,454	1,240	-14.7%			
Springdale	480	675	40.6%	300	353	17.7%	780	1,028	31.8%			
Region	3,314	3,846	16.1%	3,131	2,555	-18.4%	6,445	6,401	-0.7%			

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The table above shows changes in the [inventory](#) of the one year period from the end of 2006 until the end of 2007. It reports 5 cities and the region. In order for our market to reestablish health, our inventories must decrease. (More on this below under "Months of Inventory").

In 2006 the region had **3,314** homes listed for the existing home inventory. Compare this with **3,846** homes at the end of 2007. This represents an increase of **16.1%**. Not good! Better *looking* at least, is the new construction inventory. **Bella Vista, Bentonville,** and **Rogers** show significant decreases in their new construction inventory. This is good news.

The total shows a decrease from **3,131** homes to **2,555**. What this doesn't take into account is the "[Hidden Inventory](#)" that lies across Northwest Arkansas. These are new construction homes that were removed from the market and now lie vacant.

When the estimated **350** of these is added back to the **2,555** reported on the MLS system, we come up with **2,905** new construction homes that ultimately, the market must absorb. ***Still, the trend appears to be more caution given to observing the market and less building of new homes.***

Months of Inventory

City/Data	Last Quarter of 2006						Last Quarter of 2007							
	Existing Inventory	Existing Pend U	MOI	New Cons Inven	New Cons Pend U	MOI	Existing Inventory	Existing Pend U	MOI	% Chng 2006-2007	New Cons Inven	New Cons Pend U	MOI	% Chng 2006-2007
Bella Vista	390	44	8.8	308	35	8.7	488	34	14.4	63.1%	241	17	14.2	62.6%
Bentonville	338	33	10.1	524	27	19.2	362	26	13.7	35.6%	382	28	13.6	-28.8%
Fayetteville	384	58	6.7	432	37	11.8	559	49	11.4	71.3%	465	29	16.2	37.7%
Rogers	791	59	13.5	663	56	11.8	769	46	16.7	24.0%	471	34	13.7	16.6%
Springdale	480	64	7.5	300	28	10.6	675	42	15.9	112.6%	353	19	18.3	72.5%
Region	3,314	349	9.5	3,131	238	13.2	3,846	252	15.2	60.5%	2,555	158	16.2	22.7%

By itself, the inventory of an area doesn't reveal the health of a market. Consider a small community where 100 homes are on the market. Is that good? Bad? Neither? One way to judge market health is to compare the ratio of buyers to the inventory. In our small community example, assume the average inventory at any given time is 100 homes and the average number of pending a month is 20. We use pending rather than sales as it gives a better picture of the buyer/inventory ratio at an instant of time. Pending show market activity *now* as opposed to 2 months ago for sales. If we divide the inventory by the number of pending in a month, we get a figure called the MOI or [Months of Inventory](#). In this case, $100 / 20 = 5$. Basically this says that if the market continued to remove the inventory at the rate of 20 pending a month while the inventory stayed the same, the inventory would be depleted in 5 months.

Experience in tracking the MOI tells us that between 4 and 7 months of inventory is a fairly stable market. It represents a ratio that is of advantage neither to the buyer nor the seller. Below a MOI of 4 and we get into a "[Seller's Market](#)." Above 7 and the market enters into a "[Buyers Market](#)."

Looking at the table above we see the MOI for the total market at the end of 2006 was **9.5** for existing and **13.2** for new construction. At the end of 2007 it stands at **15.2** and **16.2** respectively. This is an increase in the MOI of about **60%** for existing and **23%** for new construction, putting us deeper into a Buyers Market.

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Bentonville is the only city where the **MOI** for 2007 new construction decreased over 2006. (**19.2** vs. **15.6**). Not only did it significantly decrease its inventory (**524** vs. **382**), but the average number of sales per month actually increased by one (**27** vs. **28**).

How We Got Here

Tracking the Inventory

	2004			2007			Percent Change		
	Existing	New Const	Total	Existing	New Const	Total	Existing	New Const	Total
Beginning Inventory	2,320	752	3,072	3,382	3,185	6,567	45.8%	323.5%	113.8%
Ending Inventory	2,437	1,061	3,498	3,846	2,555	6,401	65.8%	239.8%	108.4%

The above chart reviews the buildup of the inventory over the last 4 years. (For a full discussion, see by article "[Prelude to Folly: Tracking the Inventory](#)").

From the beginning of 2004 until the end of 2007, the existing inventory has increased from **2,320** to **3,846** homes. New Construction has increased from **752** (!) to **2,555**. This is an increase of about **66%** for existing and **240%** for new construction homes.

Now by itself this increase is not negative. If the number of buyers also dramatically increased during the same period, the market could absorb the increase in Inventory. However this is not the case. Take a look:

Decreasing Buyers and changes in the MOI

	2004			2005			2006			2007		
	Exist	NC	Total	Exist	NC	Total	Exist	NC	Total	Exist	NC	Total
Beginning Inventory	2,320	752	3,072	2,437	1,061	3,498	2,808	2,296	5,104	3,382	3,185	6,567
Units Sold	5,761	1,967	7,728	6,152	2,464	8,616	5,118	2,720	7,838	4,220	2,352	6,572
Ending Inventory	2,437	1061	3,498	2,808	2,296	5,104	3,382	3,185	6,567	3,846	2,555	6,401
MOI Average	5.0	5.5	5.1	5.1	8.2	6.0	7.3	12.1	8.9	10.3	14.6	11.8

Although our best year for units sold was 2005, note that there was about a **31%** increase in average inventory, but only about **11%** increase of buyers. This caused the Total **MOI** to increase from **5.1** in 2004 to **6.0** in 2005, with the new construction leaping from **5.5** to **8.2**.

Unfortunately, it has been down hill from there. Not only has the inventory continued to increase, but the units sold have declined every year since 2005. This puts the **average MOI** for 2007 well into the Buyers Market area. Note that the average **MOI** for the region in 2007 is lower than the **MOI** given in the table in the middle of page 4. The **MOI** table on page 4 uses data from the final quarter of the year, indicating our **MOI** is still increasing.

Where We Are Going

The Market Outlook

Careful! Forecasting is both fun and dangerous. (See my article "[Beer and Guts](#)" and the glossary entry for [jinxed](#)). Anyone can look into a crystal ball. We all see different things. Here is what I see.

The Facts

- ***Unemployment Rate***

Northwest Arkansas continues to be **20%** below the national [unemployment rate](#). ***This almost says it all.***

- ***Population Increase***

As long as there are jobs available, people will continue to move here. ***Increasing [population](#) is a [leading indicator](#) for a positive real estate market.***

- ***Interest Rates and home loans***

While loans are not handed out like candy anymore, anyone with a decent job and credit score and still find a lender. In fact, more than one lender. [Interest Rates](#) are proving that rules are broken. Traditionally, very low interest rates are part of a bull real estate market. ***Now we have these wonderful rates and buyers who are afraid to take advantage of them.***

- ***Unchanging median sales price***

Units are down, Inventory is up, DOM has doubled, but ***Median Sales Prices are remaining stable!*** Reason? Median sales prices in the US Metro areas through June of 2007 are \$224,000. In the Northeast it is \$298,000; the Midwest stands at \$163,000, the South at \$185,000, and the West at \$349,000. (National Association of Realtors®). And Northwest Arkansas? a mere \$155,000. Compared to the rest of the country, for our size and growth, we still have a very low Median Sales Price in Northwest Arkansas. Folks moving in know this and compare our prices with wherever they are coming from. It is hard for out-of-state buyers to [low-ball](#) a list price they already see as a bargain.

- ***Buyers are still buying***

Let us not forget during 2007 there were **6,572** home sales in Northwest Arkansas. Although this figure is down from the two previous years, it is still a tremendous driving force in our economy.

- ***Superb location***

If you took away all the construction that has occurred in Northwest Arkansas after 1987, the perception of what is left would be very little. We are a high-growth, new construction area. Our area feels new, fresh, and vital. Unlike most cities in America, we are young, healthy and vibrant. Remember the old real

estate adage, [location](#), location, location? ***A large part of the value and draw of Northwest Arkansas is the community amenities offered by its commercial growth.*** Our commercial growth continues even while the residential market slows.

When a buyer buys a home, he values not just the location within the community, but also the area shared by all the local communities. Northwest Arkansas has value that is apparent by buyers who see well beyond its present problems of glutted inventories and ratios. ***Buyers are still willing to pay within 96% of list price!*** They see this market adjustment period as temporary and they see the gift of Northwest Arkansas as eternal.

Speculations

So what about 2008? I think it will still creep along slowly and pick up at the end of the year. Here is my reasoning:

- Fear only lasts so long without a real crisis to back it up. The [Consumers Confidence Index](#) and the [Michigan Sentiment Index](#) both measure the emotional outlook of the economy by the American consumer. Both have fallen recently, but anxiety fluctuates quite rapidly in economic circles. ***We can only be glum so long, before hope returns.***
- Builders are showing caution and prudence in building new construction homes. ***Evidence is that the inventory is falling for new construction homes.*** In some cities, quite dramatically.
- This election year will bring new perspectives and renewed enthusiasm. New people, fresh outlooks. A chance to begin again. I think this will help motivate buyers to get their dream home. ***They should look at the incredible choices of homes and unbelievably low interest rates with a spark of wonder and then move with urgency.***
- The Months of Inventory figure will start to decrease. This is the one to watch. ***No other easy indicator can tell so much about the health of a real estate market.*** Look for the Market's MOI to fall back into the ***9-11*** range over the next year and into the ***4-7*** stable range over the next several years.

Agents and Companies

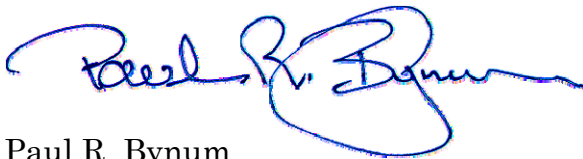
- More companies means less pie
Looking at profitability for real estate companies, we note that many new companies have joined Northwest Arkansas in the past several years. (See my article "[Agents, Companies and Markets](#)"). This coupled with decreasing sales have hurt most companies.

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- Look for more acquisitions and mergers
As weaker companies fold, many will be acquired by other stronger companies.
- Companies must cut extraneous costs and develop **superb marketing and agent retention strategies**. The first two apply to agents as well.
- Agents must offer outstanding service, have patience working with buyers, and be proactive in seeking buyers and sellers. **Don't work with unmotivated sellers or buyers.**

Well, that's it for 2007. See you next year!

Until next time and by the numbers...



Paul R. Bynum

*All data is taken from the Multiple Listing Services of Northwest Arkansas. Only residential properties of Benton and Washington counties are included in calculations. Time shares are ignored. Most of the above results will change slightly over time, as late reporting by various companies often continue for months after the close of a sale. (See my article "[Changes in Reported Data](#)" on the **Mount Data** website: www.mountdata.com).*

Exhibits

Five City Volume, Units, DOM and Sale Price Comparisons 2006-2007

<i>City/Data</i>	<i>Volume 2006</i>	<i>Volume 2007</i>	<i>% Chg</i>	<i>Units 2006</i>	<i>Units 2007</i>	<i>% Chg</i>	<i>DOM 2006</i>	<i>DOM to Region</i>	<i>DOM 2007</i>	<i>DOM to Region</i>	<i>Median 2006</i>	<i>Median 2007</i>	<i>% Chg</i>
Bella Vista	\$200,351,000	\$156,537,000	-21.9%	1,167	923	-20.9%	58	0.0%	79	3.9%	\$152,000	\$151,515	-0.3%
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Rogers	\$307,330,000	\$252,764,000	-17.8%	1,436	1,203	-16.2%	74	27.6%	86	13.2%	\$168,500	\$165,000	-2.1%
Springdale	\$206,462,000	\$177,752,000	-13.9%	1,209	1,046	-13.5%	54	-6.9%	71	-6.6%	\$152,500	\$145,000	-4.9%
Region	\$1,473,321,000	\$1,243,202,000	-15.6%	7,838	6,678	-14.8%	58	0.0%	76	0.0%	\$155,500	\$155,900	0.3%

Five City Inventory and Buyer Ratios

<i>City/Data</i>	End of 2006						End of 2007							
	Existing Inventory	Existing Units	MOI	New Cons Inven	New Cons Units	MOI	Existing Inventory	Existing Units	MOI	% Chng 2006-2007	New Cons Inven	New Cons Units	MOI	% Chng 2006-2007
Bella Vista	390	44	8.8	308	35	8.7	488	34	14.4	63.1%	241	17	14.2	62.6%
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Springdale	480	64	7.5	300	28	10.6	675	42	15.9	112.6%	353	19	18.3	72.5%
Region	3,314	349	9.5	3,131	238	13.2	3,846	252	15.2	60.5%	2,555	158	16.2	22.7%

Regional Volume, Units, DOM and Sales Price 2004-2007

	2004			2005			2006			2007		
	Existing	New Const	Total	Existing	New Const	Total	Existing	New Const	Total	Existing	New Const	Total
<i>Beginning Inventory</i>	2,320	752	3,072	2,437	1,061	3,498	2,808	2,296	5,104	3,382	3,185	6,567
<i>Volume</i>	\$919M	323M	\$1,243B	\$1,087B	\$455M	\$1,542B	\$884M	\$589M	\$1,473B	\$734M	\$509M	\$1,243B
<i>Units Sold</i>	5,761	1,967	7,728	6,152	2,464	8,616	5,118	2,720	7,838	4,220	2,352	6,572
<i>Median Sales Price</i>	\$134,900	\$137,500	\$135,000	\$145,306	\$154,709	\$147,904	\$141,521	\$182,902	\$155,394	\$142,000	\$176,675	\$155,900
<i>Days-On-Market</i>	41	42	42	41	46	42	44	93	58	65	99	76
<i>Ending Inventory</i>	2,437	1,061	3,498	2,808	2,296	5,104	3,382	3,185	6,567	3,846	2,555	6,401
<i>MOI Average</i>	5.0	5.5	5.1	5.1	8.2	6.0	7.3	12.1	8.9	10.3	14.6	11.8

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